

FIRST CITIZENS BANCSHARES INC /TN/
Form S-4/A
August 21, 2014
As filed with the Securities and Exchange Commission on August 21, 2014

Registration No. 333-197512

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

AMENDMENT No. 1

to

FORM S-4

**REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933**

FIRST CITIZENS BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee

6022

62-1180360

(State or other jurisdiction of incorporation or organization)

(Primary Standard Industrial Classification Code Number)

(I.R.S. Employer Identification Number)

One First Citizens Place
Dyersburg, Tennessee 38024
(731) 285-4410
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jeffrey D. Agee

President and Chief Executive Officer

First Citizens Bancshares, Inc.
One First Citizens Place
Dyersburg, Tennessee 38024
(731) 285-4410

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective and completion of the merger described in the enclosed Proxy Statement/Prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to completion, dated August 21, 2014

PROXY STATEMENT/PROSPECTUS

First Citizens Bancshares, Inc., holding company for

**Southern Heritage
Bancshares, Inc.,
holding company for**

MERGER PROPOSED - YOUR VOTE IS VERY IMPORTANT

The boards of directors of First Citizens Bancshares, Inc. (First Citizens) and Southern Heritage Bancshares, Inc. (SHB) have approved an agreement and plan of merger, as amended (the Merger Agreement), to merge our two companies. If SHB shareholders approve the Merger Agreement and the transactions contemplated thereby, and the merger is completed, SHB will merge with and into First Citizens and SHB shareholders (other than SHB shareholders who properly exercise their right to dissent from the merger and subject to all applicable securities laws) will have the right to receive an aggregate of (i) \$16,085,903.75 in cash, subject to adjustment as set forth in the Merger Agreement, and (ii) 377,658 shares of First Citizens stock, subject to adjustment as set forth in the Merger Agreement and as described below, of the following classes depending on the class of SHB stock held by them: 269,302 shares of First Citizens common stock and 108,356 shares of First Citizens Class A common stock.

If the merger is completed, each share of SHB stock issued and outstanding immediately prior to the effective time of the merger will, subject to the election described under *The Merger Agreement - Terms of the Merger* beginning on Page 60 of the attached Proxy Statement/Prospectus, be converted into the right to receive (i) \$12.25 in cash, plus (ii) 0.2876 of a share of First Citizens stock. Following arms -length negotiations between First Citizens and SHB, the per-share value of First Citizens common stock and First Citizens Class A common stock was agreed to be \$42.60 per share on the effective date of the Merger Agreement. Based on a value of First Citizens common stock and Class A common stock of \$42.60 per share, and assuming no adjustments to the merger consideration, the aggregate per-share merger consideration to SHB shareholders would be \$24.50. In certain circumstances described in more detail below, which circumstances SHB s management does not currently expect, the cash portion of the merger consideration may be adjusted downwards such that, if in the extraordinary circumstance that SHB s net worth on the Closing Date has dropped by as much as \$16,085,903.75, SHB shareholders would receive only First Citizens stock and no cash consideration, in which case the aggregate per-share merger consideration to SHB shareholders would be \$12.25.

As noted above, the aggregate merger consideration payable to SHB shareholders is subject to certain adjustments as set forth in the Merger Agreement in the event that two specific circumstances occur. First, if SHB s accumulated other comprehensive income as of the closing date is a loss of greater than \$3.4 million, then First Citizens may increase the number of shares issued as merger consideration so that up to 55% of the aggregate merger consideration is comprised of First Citizens stock. Second, if SHB s minimum net worth at closing (SHB s total shareholders equity, excluding (i) SHB s Series D Preferred Stock, (ii) accumulated other comprehensive income (loss), (iii) all merger costs if paid or accrued by SHB or any subsidiary of SHB and not reimbursed by SHB prior to the closing date and (iv) any accruals, provisions or charges taken by SHB at the written direction of First Citizens) is less than the required minimum of \$22,863,000 set forth in the Merger Agreement, then the cash portion of the merger consideration will be adjusted downward dollar for dollar by the amount of such shortfall. If the closing were to have occurred on August 15, 2014, the latest practicable date prior to the date of first mailing of this Proxy Statement/Prospectus, SHB s closing net worth would have been \$23,628,000, and there would accordingly have been no downward adjustment to the cash portion of the merger consideration, and SHB s management expects that in the ordinary course of business, which SHB s management believes will be the case, the closing equity at the date of determination will be greater than or equal to \$22,863,000. However, in the event of an extraordinary set of circumstances which SHB s management does not currently expect, SHB s closing net worth could be significantly less than \$22,863,000. In such extraordinary circumstances, and assuming First Citizens did not elect to exercise its right to terminate the Merger Agreement for breach of the representation of the absence of certain changes or events pursuant to the Merger Agreement, the per share merger consideration to SHB shareholders could be significantly lower than \$24.50 per share, and if the closing equity were to drop to as low as \$6,777,096.50, then SHB shareholders would receive no cash consideration and would receive only First Citizens stock for their SHB stock of 0.2876 shares of First Citizens stock for each share of SHB stock. For additional information on the possibility of a downward adjustment to the cash portion of the merger consideration, see *The Merger Agreement - Terms of the Merger* beginning on Page 60 of the attached Proxy Statement/Prospectus.

SHB shareholders who hold SHB common stock shall receive First Citizens common stock and SHB shareholders who hold SHB Class A common stock, SHB Class B common stock or SHB Series A preferred stock shall receive First Citizens Class A common stock. In lieu of the issuance of any fractional shares of First Citizens stock, First Citizens will pay to each former SHB shareholder who would otherwise be entitled to receive such fractional share an amount in cash determined by multiplying (i) \$42.60 by (ii) the fraction of a share of First Citizens common stock to which such holder would otherwise be entitled to receive. All holders of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock shall have the right to vote on the merger; however, only holders of SHB common stock have the right to vote with respect to the other proposals to be submitted at the annual meeting of SHB shareholders.

First Citizens stock is not currently listed or traded on any securities exchange or quotation system. Neither the common stock nor the preferred stock of SHB is listed or traded on any securities exchange or quotation system. First Citizens may not issue its stock to residents of any state in which the offering of these securities is not registered or eligible for a claim of exemption from registration.

We cannot complete the merger unless we obtain the necessary governmental approvals and unless the shareholders of SHB approve the merger agreement. The board of directors of SHB unanimously recommends that you vote in favor of the merger agreement.

This Proxy Statement/Prospectus provides you with detailed information about the proposed merger between First Citizens and SHB. This document also contains information about First Citizens and SHB. We encourage you to carefully read and consider this Proxy Statement/Prospectus in its entirety.

You should carefully consider the risk factors described beginning on page 14 of this Proxy Statement/Prospectus.

First Citizens is an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 and, as such, may elect to comply with certain reduced public company reporting requirements after this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this Proxy Statement/Prospectus or determined if this Proxy Statement/Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this Proxy Statement/Prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction.

Shares of First Citizens stock are not savings or deposit accounts or other obligations of any bank or savings association, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this Proxy Statement/Prospectus is [], 2014,
and it is first being mailed to the shareholders of SHB on or about [], 2014.

Southern Heritage Bancshares, Inc.,

The holding company for

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON SEPTEMBER 25, 2014**

TO THE SHAREHOLDERS OF SOUTHERN HERITAGE BANCSHARES, INC.:

This serves as notice to you that an annual meeting of shareholders of Southern Heritage Bancshares, Inc. (SHB) will be held on September 25, 2014, at 5:00 PM Eastern Time, at 3020 Keith Street NW, Cleveland, Tennessee 37312, for the following purposes:

1. *Merger Proposal.* Considering and voting upon the approval of the agreement and plan of merger, as amended (the Merger Agreement), dated as of March 20, 2014, between SHB and First Citizens Bancshares, Inc. (First Citizens), which provides for the merger of SHB with and into First Citizens as more fully described in the accompanying Proxy Statement/Prospectus, and the transactions contemplated by the Merger Agreement;
2. *Election of Directors.* Electing two Class III members of the board of directors to serve three-year terms until the annual meeting of shareholders in 2017 or until their successors have been duly elected and qualified. Note that upon the effective date of the merger, if approved and then consummated, the directors of SHB will no longer serve as directors of SHB, but since the same directors generally are elected as the directors of Southern Heritage Bank, they will continue to serve in that capacity;
3. *Adjournment.* If necessary, adjourning the annual meeting to a later date; and
4. *Other Business.* Transacting such other business as may properly come before the annual meeting or any adjournment of the annual meeting.

All holders of record of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock at the close of business on August 21, 2014 (the record date) are entitled to notice of and to vote on the merger. Each share of SHB stock is entitled to one vote. Approval of the Merger Agreement requires approval by an affirmative vote of at least a majority of the outstanding shares of SHB stock entitled to vote on the proposal, voting as separate classes. Only holders of SHB common stock at the close of business on the record date have the right to vote with respect to the other proposals to be submitted at the annual meeting of SHB shareholders.

The board of directors of SHB has unanimously approved the Merger Agreement and the transactions contemplated thereby and recommends that SHB shareholders vote FOR approval of the Merger Agreement and the transactions contemplated thereby.

Under the terms of the Merger Agreement, if the Merger Agreement is approved and the merger is completed, all outstanding shares of SHB stock will be converted into the right to receive an aggregate of (i) \$16,085,903.75 in cash, subject to adjustment as set forth in the Merger Agreement, and (ii) 377,658 shares of First Citizens stock, subject to adjustment as set forth in the Merger Agreement, of the following classes depending on the class of SHB stock held by SHB's shareholders: 269,302 shares of First Citizens common stock and 108,356 shares of First Citizens Class A common stock.

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If the merger is completed, each share of SHB stock issued and outstanding immediately prior to the effective time of the merger will, subject to the election described under *The Merger Agreement - Terms of the Merger* beginning on Page 60 of the attached Proxy Statement/Prospectus, be converted into the right to receive (i) \$12.25 in cash, plus (ii) 0.2876 of a share of First Citizens stock. Following arms -length negotiations between First Citizens and SHB, the per-share value of First Citizens common stock and First Citizens Class A common stock was agreed to be \$42.60 per share on the effective date of the Merger Agreement. Based on a value of First Citizens common stock and Class A common stock of \$42.60 per share, and assuming no adjustments to the merger consideration, the aggregate per-share merger consideration to SHB shareholders would be \$24.50. In certain circumstances described in more detail below, which circumstances SHB's management does not currently expect, the cash portion of the merger consideration may be adjusted downwards such that, if in the extraordinary circumstance that SHB's net worth on the Closing Date has dropped by as much as \$16,085,903.75, SHB shareholders would receive only First Citizens stock and no cash consideration, in which case the aggregate per-share merger consideration to SHB shareholders would be \$12.25.

As noted above, the aggregate merger consideration payable to SHB shareholders is subject to certain adjustments as set forth in the Merger Agreement in the event that two specific circumstances occur. First, if SHB's accumulated other comprehensive income as of the closing date is a loss of greater than \$3.4 million, then First Citizens may increase the number of shares issued as merger consideration so that up to 55% of the aggregate merger consideration is comprised of First Citizens stock. Second, if SHB's minimum net worth at closing (SHB's total shareholders equity, excluding (i) SHB's Series D Preferred Stock, (ii) accumulated other comprehensive income (loss), (iii) all merger costs if paid or accrued by SHB or any subsidiary of SHB and not reimbursed by SHB prior to the closing date and (iv) any accruals, provisions or charges taken by SHB at the written direction of First Citizens) is less than the required minimum of \$22,863,000 set forth in the Merger Agreement, then the cash portion of the merger consideration will be adjusted downward dollar for dollar by the amount of such shortfall. If the closing were to have occurred on August 15, 2014, the latest practicable date prior to the date of first mailing of this Proxy Statement/Prospectus, SHB's closing net worth would have been \$23,628,000, and there would accordingly have been no downward adjustment to the cash portion of the merger consideration, and SHB's management expects that in the ordinary course of business, which SHB's management believes will be the case, the closing equity at the date of determination will be greater than or equal to \$22,863,000. However, in the event of an extraordinary set of circumstances which SHB's management does not currently expect, SHB's closing net worth could be significantly less than \$22,863,000. In such extraordinary circumstances, and assuming First Citizens did not elect to exercise its right to terminate the Merger Agreement for breach of the representation of the absence of certain changes or events pursuant to the Merger Agreement, the per share merger consideration to SHB shareholders could be significantly lower than \$24.50 per share, and if the closing equity were to drop to as low as \$6,777,096.50, then SHB shareholders would receive no cash consideration and would receive only First Citizens stock for their SHB stock of 0.2876 shares of First Citizens stock for each share of SHB stock. For additional information on the possibility of a downward adjustment to the cash portion of the merger consideration, see *The Merger Agreement - Terms of the Merger* beginning on Page 60 of the attached Proxy Statement/Prospectus.

SHB shareholders who hold SHB common stock shall receive First Citizens common stock and SHB shareholders who hold SHB Class A common stock, SHB Class B common stock or SHB Series A preferred stock shall receive First Citizens Class A common stock. In lieu of the issuance of any fractional shares of First Citizens stock, First Citizens will pay to each former SHB shareholder who would otherwise be entitled to receive such fractional share an amount in cash determined by multiplying (i) \$42.60 by (ii) the fraction of a share of First Citizens common stock to which such holder would otherwise be entitled to receive. All holders of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock shall have the right to vote on the merger; however, only holders of SHB common stock have the right to vote with respect to the other proposals to be submitted at the annual meeting of SHB shareholders.

Notice of Right to Dissent. Dissenting SHB shareholders who comply with the procedural requirements of Chapter 23 of the Tennessee Business Corporation Act will be entitled to receive payment of the fair value of their shares. A copy of Chapter 23 of the Tennessee Business Corporation Act containing the procedural requirements to exercise dissenters' rights is attached as Annex B to the accompanying Proxy Statement/Prospectus. In addition, please see the section entitled PROPOSAL 1: THE MERGER Dissenters' Rights in the accompanying Proxy Statement/Prospectus for a discussion of the procedures to be followed in asserting these dissenters' rights.

Please vote through the Internet or mark, sign, date and return the enclosed proxy card promptly, whether or not you plan to attend the annual meeting. All SHB shareholders are invited to attend the annual meeting. To ensure your representation at the annual meeting, please complete and promptly mail the enclosed proxy card in the enclosed postage paid business reply envelope or vote through the Internet by visiting the following website: www.voteproxy.com. This will not prevent you from voting in person, but will help to secure a quorum and avoid added solicitation costs. If you do not vote your proxy and do not attend the annual meeting in order to vote in person, the effect will be the same as a vote against the Merger Agreement and the transactions contemplated thereby. You may revoke your proxy at any time before it is voted.

Please review the Proxy Statement/Prospectus accompanying this notice for more complete information regarding the proposed merger and the annual meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

J. Lee Stewart
President and Chief Executive Officer

August [], 2014

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**QUESTIONS AND ANSWERS
ABOUT THE MERGER AND THE ANNUAL MEETING**

The following are some questions that you may have regarding the merger and the SHB annual meeting and brief answers to those questions. We urge you to carefully read the remainder of this Proxy Statement/Prospectus because the information in this section does not provide all the information that might be important to you with respect to the merger and the annual meeting.

Q: What am I being asked to vote on?

A: If you are a record holder of SHB common stock, SHB Class A common stock, SHB Class B common stock or SHB Series A preferred stock, you are being asked to vote on a proposal to approve a merger in which SHB will merge with and into First Citizens, with First Citizens surviving. Southern Heritage Bank will become a wholly-owned subsidiary of First Citizens. After the merger, SHB shareholders will no longer own shares of SHB stock and will receive the per share merger consideration.

In addition, if you are a holder of SHB common stock, you are also being asked to vote on the following proposals:

- **Election of Directors.** To elect two Class III members of the board of directors to serve three-year terms until the annual meeting of shareholders in 2017 or until their successors have been duly elected and qualified. Note that upon the effective date of the merger, if approved and then consummated, the directors of SHB will no longer serve as directors of SHB, but since the same directors generally are elected as the directors of Southern Heritage Bank, they will continue to serve in that capacity.
- **Adjournment.** If necessary, to adjourn the annual meeting to a later date.
- **Other Business.** To transact such other business as may properly come before the annual meeting or any adjournment of the annual meeting.

Q: Why is SHB merging with First Citizens?

A: SHB is merging with First Citizens because the boards of directors of both companies believe that the merger will provide shareholders of both companies with substantial benefits and will enable the combined company to better serve customers. The combined company would have a presence throughout West and East Tennessee. A detailed discussion of the background of and reasons for the proposed merger is contained under the headings PROPOSAL 1: THE MERGER - Background of the Merger, and PROPOSAL 1: THE MERGER - Reasons for the Merger; Recommendation of the Board of Directors.

Q: **What do I need to do now?**

A: After you carefully read this Proxy Statement/Prospectus, please vote using the Internet by visiting the following website: www.voteproxy.com or, if you have been provided a proxy card, please vote it promptly by indicating on the enclosed proxy card how you want to vote, and by signing and mailing the proxy card in the enclosed postage-paid business reply envelope as soon as possible so that your shares may be represented at the annual meeting of shareholders. Do not send in your stock certificates now.

Regardless of whether you plan to attend the annual meeting in person, if you are a SHB shareholder, we encourage you to vote your proxy promptly. This will help to ensure that a quorum is present at the annual meeting and will help reduce the costs associated with the solicitation of proxies.

The board of directors of SHB unanimously recommends that SHB shareholders vote FOR approval of the Merger Agreement and the transactions contemplated thereby and that holders of SHB common stock vote FOR the election of two Class III directors to serve until the 2017 annual meeting of shareholders.

Q: **Why is my vote important?**

A: Pursuant to the Tennessee Business Corporation Act, the Merger Agreement must be approved by a majority of all the votes of each class entitled to be cast by SHB shareholders, with each class of stock voting separately. Therefore, a majority of the outstanding shares of SHB stock held by SHB shareholders, present in person or by proxy at the annual meeting, must vote to approve the Merger Agreement. Accordingly, if you abstain, it will have the same effect as a vote AGAINST approval of the Merger Agreement.

Q: Can I change my vote after I have delivered my proxy card?

A: You may change your vote at any time before your proxy is voted at the meeting. You can do this in any of the following four ways: by sending a written notice to the corporate secretary of SHB in time to be received before the annual meeting stating that you would like to revoke your proxy; by completing, signing and dating another proxy card and returning it by mail in time to be received before the annual meeting, in which case your later-submitted proxy will be recorded and your earlier proxy revoked; re-vote by using the Internet and visiting the following website: www.voteproxy.com; or if you are a SHB shareholder, by attending the annual meeting and voting in person, although attendance by itself will not revoke a previously granted proxy. If your shares are held in an account at a broker, you should contact your broker to change your vote.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: **NOT WITH RESPECT TO THE PROPOSAL TO APPROVE THE MERGER AGREEMENT OR TO ELECT DIRECTORS.** You should instruct your broker to vote your shares, following the directions your broker provides. Your broker will not have the discretion to vote your shares on the proposal to approve the Merger Agreement or on the proposal to elect two Class III directors. Failure to instruct your broker how to vote your shares on the proposal to approve the Merger Agreement will have the same effect as voting AGAINST the Merger Agreement.

Q: What is the aggregate amount of consideration to be paid by First Citizens in the merger?

A: Under the terms of the Merger Agreement, if the Merger Agreement is approved and the merger is completed, the outstanding shares of SHB stock will be converted into the right to receive an aggregate of (i) \$16,085,903.75 in cash, subject to adjustment as set forth in the Merger Agreement, and (ii) 377,658 shares of First Citizens stock, subject to adjustment as set forth in the Merger Agreement.

Q: What will I receive in connection with the merger?

A: If the merger is completed, each share of SHB stock issued and outstanding immediately prior to the effective time of the merger will, subject to the election described below, be converted into the right to receive (i) \$12.25 in cash, plus (ii) 0.2876 of a share of First Citizens stock. Shareholders of SHB who hold more than one share of SHB stock may elect to receive consideration in exchange for each share of SHB common stock in the form of: (a) 0.5751 shares of First Citizens stock or (b) \$24.50 in cash, subject to adjustment pursuant to the merger consideration adjustments as provided in the Merger Agreement, including First Citizens' rights to adjust the aggregate merger consideration such that, in the aggregate, no more than 377,658 shares of First Citizens stock will be issued in connection with the merger. Following arms-length negotiations between First Citizens and SHB, the per-share value of First Citizens common stock and First Citizens Class A common stock was agreed to be \$42.60 per share on the effective date of the Merger Agreement. Based on a value of First Citizens common stock and Class A common stock of \$42.60 per share, and assuming no adjustments to the merger consideration, the aggregate per-share merger consideration to SHB shareholders would be \$24.50. In certain circumstances described in more detail below, which circumstances SHB's management does not currently expect, the cash portion of the merger consideration may be adjusted downwards such that, in the extraordinary circumstance that SHB's net worth on the Closing Date has dropped by as much as \$16,085,903.75, SHB shareholders would receive only First Citizens stock and no cash consideration, in which case the aggregate per-share merger consideration to SHB shareholders would be \$12.25.

As noted above, the aggregate merger consideration payable to SHB shareholders is subject to certain adjustments as set forth in the Merger Agreement in the event that two specific circumstances occur. First, if SHB's accumulated other comprehensive income as of the closing date is a loss of greater than \$3.4 million, then First Citizens may increase the number of shares issued as merger consideration so that up to 55% of the aggregate merger consideration is comprised of First Citizens stock. Second, if SHB's minimum net worth at closing (SHB's total shareholders' equity, excluding (i) SHB's Series D Preferred Stock, (ii) accumulated other comprehensive income (loss), (iii) all merger costs if paid or accrued by SHB or any subsidiary of SHB and not reimbursed by SHB prior to the closing date and (iv) any accruals, provisions or charges taken by SHB at the written direction of First Citizens) is less than the required minimum of \$22,863,000 set forth in the Merger Agreement, then the cash portion of the merger consideration will be adjusted downward dollar for dollar by the amount of such shortfall. If the closing were to have occurred on August 15, 2014, the latest practicable date prior to the date of first mailing of this Proxy Statement/Prospectus, SHB's closing net worth would have been \$23,628,000, and there would accordingly have been no downward adjustment to the cash portion of the merger consideration, and SHB's management expects that in the ordinary course of business, which SHB's management believes will be the case, the closing equity at the date of determination will be greater than or equal to \$22,863,000. However, in the event of an extraordinary set of circumstances which SHB's management does not currently expect, SHB's closing net worth could be significantly less than \$22,863,000. In such extraordinary circumstances, and assuming First Citizens did not elect to exercise its right to terminate the Merger Agreement for breach of the representation of the absence of certain changes or events pursuant to the Merger Agreement, the per share merger consideration to SHB shareholders could be significantly lower than \$24.50 per share, and if the closing equity were to drop to as low as \$6,777,096.50, then SHB shareholders would receive no cash consideration and would receive only First Citizens stock for their SHB stock of 0.2876 shares of First Citizens

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stock for each share of SHB stock. For additional information on the possibility of a downward adjustment to the cash portion of the merger consideration, see *The Merger Agreement - Terms of the Merger* beginning on Page 60 of the attached Proxy Statement/Prospectus.

SHB shareholders who hold SHB common stock shall receive First Citizens common stock and SHB shareholders who hold SHB Class A common stock, SHB Class B common stock or SHB Series A preferred stock shall receive First Citizens Class A common stock. In lieu of the issuance of any fractional shares of First Citizens stock, First Citizens will pay to each former SHB shareholder who would otherwise be entitled to receive such fractional share an amount in cash determined by multiplying (i) \$42.60 by (ii) the fraction of a share of First Citizens common stock to which such holder would otherwise be entitled to receive.

Q: Who will be on the board of directors of First Citizens after the merger?

A: Following the merger, the board of directors of First Citizens will consist of 19 members. Eighteen of these directors will be the current members of the board of directors of First Citizens. For more information on these individuals, see INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens. J. Lee Stewart, the current president and chief executive officer of SHB, will be joining the First Citizens board of directors as the 19th member. He will also be joining the First Citizens National Bank board of directors. If, prior to the closing date, Mr. Stewart becomes unavailable for any reason to serve as a member of the board of directors of First Citizens or First Citizens National Bank following the merger, the boards of directors of First Citizens and First Citizens National Bank will continue with their current members. See THE MERGER AGREEMENT - Management and Operations Following the Merger for biographical information with respect to Mr. Stewart.

Q: What are the material U.S. federal income tax consequences of the merger to the shareholders?

A: The merger has been structured and is intended to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). As a result of the merger's qualification as a reorganization, it is anticipated that SHB shareholders will not recognize gain or loss for U.S. federal income tax purposes on the exchange of shares of SHB stock for shares of First Citizens stock, except with respect to cash received in connection with the merger and cash delivered in lieu of fractional shares of First Citizens stock and except for SHB shareholders who exercise their dissenters' rights with respect to the merger.

This tax treatment may not apply to all SHB shareholders. You are urged to consult your own tax advisor for a full understanding of the merger's tax consequences that are particular to you.

Q: What is the purpose of this Proxy Statement/Prospectus?

A: This document serves as SHB's proxy statement and as First Citizens' prospectus. As a proxy statement, this document is being provided to SHB's shareholders because SHB's board of directors is soliciting proxies to vote to approve the Merger Agreement, the election of directors and other business that may properly come before the meeting. As a prospectus, this document is being provided to SHB's shareholders by First Citizens because First Citizens is offering shares of First Citizens stock in exchange for their shares of SHB's stock if the merger is completed.

Q: Should I send in my SHB stock certificates now?

A: No. You should not send in your stock certificates at this time. If the merger is approved by the SHB shareholders, then shortly after the annual meeting, the exchange agent will send SHB shareholders written instructions for exchanging SHB stock certificates for First Citizens stock certificates, including a letter of transmittal and an election form with instructions. The allocation of the mix of consideration payable to each SHB shareholder will not be finally determined until the exchange agent tallies the results of the stock and cash elections made by SHB shareholders, which will not incur until after the deadline specified in the election form.

Q: What happens if I do not make a valid election under the election form?

A: If you do not return a properly completed election form by the deadline specified in the election form, your shares of SHB stock will be considered non-election shares and, in accordance with the terms of the Merger Agreement, you will be entitled to receive for each share of SHB stock you hold cash consideration of \$12.25 and stock consideration of 0.2876 of a share of First Citizens stock (plus cash in lieu of any fractional shares), subject to adjustment as described in the Merger Agreement.

Q: Do I have the right to dissent and obtain the fair value for my shares?

A: Yes, if you are a SHB shareholder, Tennessee law permits you to dissent from the merger and to obtain payment in cash of the fair value of your shares of SHB stock. To do this, an SHB shareholder must follow specific procedures, including delivering written notice to SHB of his or her intent to demand payment for his or her shares if the merger is completed. This notice must be delivered to SHB before the shareholder vote on the Merger Agreement is taken and a dissenting SHB shareholder must not vote his or her shares in favor of the Merger Agreement. If an SHB shareholder follows the required procedures, his or her only right will be to receive the fair value of his or her SHB stock in cash if the merger is completed. If a shareholder thinks that he or she may desire to dissent, then such person should not send in a proxy unless it is marked to vote against the merger. Copies of the applicable Tennessee statutes are attached to this Proxy Statement/Prospectus as Annex B. See PROPOSAL 1: THE MERGER - Dissenters' Rights.

Tennessee law does not provide dissenters' rights to First Citizens' shareholders.

Q: Whom do I contact if I have questions about the merger?

A: If you have questions about the merger, including about the procedures for voting your shares, you should contact:

Southern Heritage Bancshares, Inc.

3020 Keith Street NW

Cleveland, Tennessee 37312

Attention: J. Lee Stewart, President and Chief Executive Officer

Phone Number: (423) 473-7980

Q: When and where will the annual meeting of shareholders of SHB be held?

A: The annual meeting of shareholders of SHB will be held on September 25, 2014, at 5:00 PM Eastern Time, at 3020 Keith Street NW, Cleveland, Tennessee 37312.

Q: Who is entitled to vote at the annual meeting of shareholders of SHB?

A: All holders of record of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock at the close of business on August 21, 2014 are entitled to notice of and to vote on the merger. Only holders of SHB common stock at the close of business on the record date have the right to vote with respect to the other proposals to be submitted at the annual meeting of SHB shareholders.

Q: When do you expect the merger to be completed?

A: We expect to complete the merger during the fourth quarter of 2014, although delays could occur. We received approval from the Federal Reserve System (the "Federal Reserve") on May 13, 2014, and the Federal Reserve has extended the deadline by which the merger must close to November 13, 2014. We received approval from the Tennessee Department of Financial Institutions (the "TDFI") on July 24, 2014. The next step is to obtain the approval of SHB shareholders at their annual shareholders meeting.

Q: Are there any risks I should consider in deciding whether I vote for the Merger Agreement?

A: Yes. A number of risk factors that you should consider carefully are set forth under the heading of "Risk Factors," beginning on page 14.

SUMMARY

This summary highlights selected information from this Proxy Statement/Prospectus. It does not contain all of the information that is important to you. You should carefully read this entire Proxy Statement/Prospectus and the documents to which it refers in order to understand fully the merger and to obtain a more complete description of the companies and the legal terms of the merger. For information on how to obtain copies of documents referred to in this Proxy Statement/Prospectus, you should read the section entitled **WHERE YOU CAN FIND MORE INFORMATION**. Each item in this summary includes a page reference that directs you to a more complete description in this Proxy Statement/Prospectus of the topic discussed.

The Companies (Pages 71, 113)

FIRST CITIZENS BANCSHARES, INC.

One First Citizens Place

Dyersburg, Tennessee 38024

(731) 287-4391

First Citizens Bancshares, Inc. (**First Citizens**) is incorporated in Tennessee, based in Dyersburg, Tennessee, and operates as a financial holding company under the Bank Holding Company Act of 1956, as amended (the **Bank Holding Company Act**). First Citizens conducts its operations through its national bank subsidiary, First Citizens National Bank, and its banking-related subsidiaries. First Citizens National Bank operates 21 commercial banking, mortgage and insurance locations in West and Middle Tennessee. As of December 31, 2013, First Citizens had total assets of approximately \$1.18 billion, deposits of approximately \$969 million and shareholders' equity of approximately \$113 million.

On March 20, 2014, First Citizens announced that it had entered into a definitive agreement to acquire Southern Heritage Bancshares, Inc. (**SHB**). The merger has been approved by the boards of directors of both First Citizens and SHB and is expected to close during the fourth quarter of 2014, although delays may occur. The transaction is subject to certain conditions, including the approval by shareholders of SHB and customary regulatory approvals.

SOUTHERN HERITAGE BANCSHARES, INC.

3020 Keith Street NW

Cleveland, Tennessee 37312

(423) 473-7980

SHB is incorporated in Tennessee, based in Cleveland, Tennessee, and operated as a bank holding company under the Bank Holding Company Act. As of December 31, 2013, SHB had total assets of approximately \$237 million and shareholders' equity of approximately \$30 million. Southern Heritage Bank, a wholly-owned subsidiary of SHB, is a full service commercial bank with three locations in Cleveland, Bradley County, Tennessee, with total loans of approximately \$139 million and deposits of approximately \$206 million. As of December 31, 2013, there were 936,375 shares of SHB common stock issued and outstanding, 151,949 shares of SHB Class A common stock issued and outstanding, 193,176 shares of SHB Class B common stock issued and outstanding and 31,635 shares of SHB Series A preferred stock issued and outstanding.

The Merger (Page 42)

First Citizens and SHB entered into an agreement and plan of merger, as amended (the Merger Agreement) whereby SHB will merge with and into First Citizens, with First Citizens surviving, subject to SHB s shareholders approving the merger and the receipt of regulatory approval and other conditions. If the merger is completed, Southern Heritage Bank will become a wholly-owned subsidiary of First Citizens. The Merger Agreement is attached to this Proxy Statement/Prospectus as Annex A. You should read it carefully. Subject to shareholder and regulatory approval, management of First Citizens and SHB expect to complete the merger during the fourth quarter of 2014.

What SHB Shareholders Will Receive in the Merger (Page 60)

Under the terms of the Merger Agreement, if the Merger Agreement is approved and the merger is completed, all outstanding shares of SHB stock will be converted into the right to receive an aggregate of (i) \$16,085,903.75 in cash, subject to adjustment as set forth in the Merger Agreement, and (ii) 377,658 shares of First Citizens stock, subject to adjustment as set forth in the Merger Agreement, of the following classes depending on the class of SHB stock held by them: 269,302 shares of First Citizens common stock and 108,356 shares of First Citizens Class A common stock.

If the merger is completed, each share of SHB stock issued and outstanding immediately prior to the effective time of the merger will, subject to the election described below, be converted into the right to receive (i) \$12.25 in cash, plus (ii) 0.2876 of a share of First Citizens stock. Shareholders of SHB who hold more than one share of SHB stock may elect to receive consideration in exchange for each share of SHB common stock in the form of: (a) 0.5751 shares of First Citizens stock or (b) \$24.50 in cash, subject to adjustment pursuant to the merger consideration adjustments as provided in the Merger Agreement, including First Citizens' rights to adjust the aggregate merger consideration such that, in the aggregate, no more than 377,658 shares of First Citizens stock will be issued in connection with the merger. Following arms-length negotiations between First Citizens and SHB, the per-share value of First Citizens common stock and First Citizens Class A common stock was agreed to be \$42.60 per share on the effective date of the Merger Agreement. Based on a value of First Citizens common stock and Class A common stock of \$42.60 per share, and assuming no adjustments to the merger consideration, the aggregate per-share merger consideration to SHB shareholders would be \$24.50. In certain circumstances described in more detail below, which circumstances SHB's management does not currently expect, the cash portion of the merger consideration may be adjusted downwards such that, if in the extraordinary circumstance that SHB's net worth on the Closing Date has dropped by as much as \$16,085,903.75, SHB shareholders would receive only First Citizens stock and no cash consideration, in which case the aggregate per-share merger consideration to SHB shareholders would be \$12.25.

As noted above, the aggregate merger consideration payable to SHB shareholders is subject to certain adjustments as set forth in the Merger Agreement in the event that two specific circumstances occur. First, if SHB's accumulated other comprehensive income as of the closing date is a loss of greater than \$3.4 million, then First Citizens may increase the number of shares issued as merger consideration so that up to 55% of the aggregate merger consideration is comprised of First Citizens stock. Second, if SHB's minimum net worth at closing (SHB's total shareholders equity, excluding (i) SHB's Series D Preferred Stock, (ii) accumulated other comprehensive income (loss), (iii) all merger costs if paid or accrued by SHB or any subsidiary of SHB and not reimbursed by SHB prior to the closing date and (iv) any accruals, provisions or charges taken by SHB at the written direction of First Citizens) is less than the required minimum of \$22,863,000 set forth in the Merger Agreement, then the cash portion of the merger consideration will be adjusted downward dollar for dollar by the amount of such shortfall. If the closing were to have occurred on August 15, 2014, the latest practicable date prior to the date of first mailing of this Proxy Statement/Prospectus, SHB's closing net worth would have been \$23,628,000, and there would accordingly have been no downward adjustment to the cash portion of the merger consideration, and SHB's management expects that in the ordinary course of business, which SHB's management believes will be the case, the closing equity at the date of determination will be greater than or equal to \$22,863,000. However, in the event of an extraordinary set of circumstances which SHB's management does not currently expect, SHB's closing net worth could be significantly less than \$22,863,000. In such extraordinary circumstances, and assuming First Citizens did not elect to exercise its right to terminate the Merger Agreement for breach of the representation of the absence of certain changes or events pursuant to the Merger Agreement, the per share merger consideration to SHB shareholders could be significantly lower than \$24.50 per share, and if the closing equity were to drop to as low as \$6,777,096.50, then SHB shareholders would receive no cash consideration and would receive only First Citizens stock for their SHB stock of 0.2876 shares of First Citizens stock for each share of SHB stock. For additional information on the possibility of a downward adjustment to the cash portion of the merger consideration, see *The Merger Agreement - Terms of the Merger* beginning on Page 60 of the this Proxy Statement/Prospectus.

SHB shareholders who hold SHB common stock shall receive First Citizens common stock and SHB shareholders who hold SHB Class A common stock, SHB Class B common stock or SHB Series A preferred stock shall receive First Citizens Class A common stock. In lieu of the issuance of any fractional shares of First Citizens stock, First Citizens will pay to each former SHB shareholder who would otherwise be entitled to receive such fractional share an amount in cash determined by multiplying (i) \$42.60 by (ii) the fraction of a share of First Citizens common stock to which such holder would otherwise be entitled to receive.

At the effective time of the merger, persons who are First Citizens shareholders immediately prior to the merger would own approximately 90.5% of the outstanding shares of stock of the combined company, including approximately 93% of the voting stock, and persons who are SHB shareholders immediately prior to the merger would own approximately 9.5% of the outstanding shares of stock of the combined company including approximately 7% of the voting stock.

The Board of Directors of SHB Recommends that its Shareholders Approve the Merger Agreement (Page 43)

The board of directors of SHB has approved the Merger Agreement and the transactions contemplated thereby, and believes, based on a number of factors described in this Proxy Statement/Prospectus, that the merger between SHB and First Citizens is in the best interests of SHB shareholders and recommends that SHB shareholders vote FOR the proposal to approve the Merger Agreement and the transactions contemplated thereby.

Vote Required to Complete the Merger (Page 40)

The Merger Agreement must be approved by a majority of all the votes entitled to be cast by SHB shareholders on this merger. Therefore, a majority of the outstanding shares of SHB stock held by SHB shareholders, present in person or by proxy at the annual meeting, must be voted to approve the Merger Agreement. SHB expects that its executive officers and directors will vote all of their shares of SHB stock in favor of the Merger Agreement.

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The following chart describes the SHB shareholder vote required to approve the Merger Agreement:

Number of shares of SHB stock entitled to vote outstanding on August 21, 2014	936,375 shares of SHB common stock 151,949 shares of SHB Class A common stock 193,176 shares of SHB Class B common stock 31,635 shares of SHB Series A preferred stock
Number of votes necessary to approve the Merger Agreement	468,189 shares of SHB common stock 75,976 shares of SHB Class A common stock 96,589 shares of SHB Class B common stock 15,819 shares of SHB Series A preferred stock
Percentage of outstanding shares of SHB stock entitled to vote necessary to approve the Merger Agreement	>50% of each class of SHB stock
Number of votes that executive officers, directors and their affiliates can cast as of August 21, 2014	239,025 shares of SHB common stock 1,841 shares of SHB Class A common stock 6,936 shares of SHB Class B common stock 347 shares of SHB Series A preferred stock
Percentage of votes that executive officers, directors and their affiliates can cast as of August 21, 2014	25.5 % of SHB common stock 1.2 % of SHB Class A common stock 3.6 % of SHB Class B common stock 1.1 % of SHB Series A preferred stock

Annual Meeting (Page 39)

An annual meeting of the shareholders of SHB will be held at the following time and place:

September 25, 2014
5:00 PM (Eastern Time)
3020 Keith Street NW

Cleveland, Tennessee 37312

At the SHB annual meeting, the following proposals will be considered and voted upon:

1. *Merger Proposal.* To approve the Merger Agreement and the transactions contemplated by the Merger Agreement;
2. *Election of Directors.* To elect two Class III members of the board of directors to serve three-year terms until the annual meeting of shareholders in 2017 or until their successors have been duly elected and qualified. Note that upon the effective date of the merger, if approved and then consummated, the directors of SHB will no longer serve as directors of SHB, but since the same directors generally are elected as the directors of Southern Heritage Bank, they will continue to serve in that capacity;

3. *Adjournment.* If necessary, to adjourn the annual meeting to a later date; and

4. *Other Business.* To transact such other business as may properly come before the annual meeting or any adjournment of the annual meeting.

All holders of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock shall have the right to vote on the merger; however, only holders of SHB common stock have the right to vote with respect to the other proposals to be submitted at the annual meeting of SHB shareholders.

Vote Required on Other Matters (Page 40)

Only holders of SHB common stock are entitled to vote on matters other than the merger at the annual meeting. You are entitled to vote your common stock if our records show that you held your shares as of the close of business on August 21, 2014, the record date. Holders of shares of our Class A common stock, Class B common stock and SHB Series A preferred stock are not entitled to vote on these other matters being presented at the annual meeting.

Each shareholder is entitled to one vote for each share of common stock held on the record date. On that date, there were 936,375 shares of common stock outstanding and entitled to vote. Shareholders are not entitled to cumulative voting rights.

For the election of directors, you may vote for (1) all of the nominees, (2) none of the nominees, or (3) all of the nominees except those you designate. For other matters, or adjournment, you may vote FOR or AGAINST or you may ABSTAIN from voting.

If you return your signed proxy card but do not specify how you want to vote your shares, we will vote them FOR the election of the nominees for directors and FOR the adjournment, if necessary, of the annual meeting to a later date.

If a quorum is present at the annual meeting, the director nominees will be elected by a plurality of the votes cast in person or by proxy at the meeting, and any other matters submitted to the shareholders will require the affirmative vote of a majority of the shares of common stock present or represented by proxy at the meeting.

Record Date and Voting Rights On the Merger (Page 40)

You can vote on the merger at the annual meeting of SHB shareholders if you owned SHB common stock, SHB Class A common stock, SHB Class B common stock or SHB Series A preferred stock as of the close of business on August 21, 2014, the record date set by the SHB board of directors. Each share of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock is entitled to one vote. Holders of those shares will be considered as separate voting groups and will be entitled to vote and be counted as separate voting groups for each class of shares. On August 21, 2014, there were 936,375 shares of SHB common stock, 151,949 shares of SHB Class A common stock, 193,176 shares of SHB Class B common stock and 31,635 shares of SHB Series A preferred stock outstanding and entitled to vote on the Merger Agreement.

Background of the Merger (Page 42)

On March 27, 2013, SHB engaged FIG Partners, LLC (FIG Partners) to act as its exclusive agent to provide investment banking and financial advisory services in relation to exploring its strategic alternatives including a possible business combination with another party. FIG Partners was asked to identify a limited number of potential acquirers and analyze the benefits of each potential offer to SHB's shareholders. On May 24, 2013, First Citizens engaged Olsen Palmer, LLC (Olsen Palmer) to act as its exclusive agent to provide investment banking and financial advisory services in connection with the potential acquisition of SHB. After reviewing the information delivered by its financial advisor and considering its own strategic plans, on December 3, 2013, First Citizens' management submitted an indication of interest to SHB. After considering the proposal, the management of SHB, in consultation with FIG Partners, elected to enter into exclusive negotiations with First Citizens. The parties and their representatives began negotiation of the terms of the Merger Agreement on December 4, 2013 and continued to negotiate the terms of the Merger Agreement until on March 19, 2014, following presentations from their respective legal and financial advisors,

First Citizens and SHB's boards of directors approved the Merger Agreement. The Merger Agreement was executed by the parties on March 20, 2014.

Why First Citizens and SHB are Seeking to Merge (Page 43)

The merger will combine the strengths of First Citizens and SHB and their subsidiary banks. First Citizens has an established presence in West and Middle Tennessee with plans to significantly enhance its market share in those markets. Joining with First Citizens will provide SHB's customers opportunities offered by a similar but larger, resourceful, community-minded bank. First Citizens has been actively seeking other banking locations to expand its presence in Tennessee. The proposed merger with SHB accelerates First Citizens' opportunity to grow across Tennessee and brings a number of outstanding bankers to First Citizens' team. First Citizens currently operates 21 commercial banking, mortgage, and insurance locations in West and Middle Tennessee, with total assets of approximately \$1.18 billion. First Citizens' management views Bradley County as a logical growth area for its community style of banking.

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Opinion of Financial Advisor to SHB (Page 44)

FIG Partners has delivered to the board of directors of SHB its written opinion, dated March 19, 2014, that, based upon and subject to the various considerations set forth in its opinion, the total transaction consideration to be paid to the shareholders of SHB is fair from a financial point of view as of such date. In requesting FIG Partners' advice and opinion, no instructions were given and no limitations were imposed by SHB upon FIG Partners with respect to the investigations made or procedures followed by it in rendering its opinion.

The full text of the opinion of FIG Partners, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Annex C to this Proxy Statement/Prospectus. SHB shareholders should read this opinion in its entirety.

Opinion of Financial Advisor to First Citizens (Page 48)

Olsen Palmer has delivered to the board of directors of First Citizens its written opinion, dated March 19, 2014, that, based upon and subject to the various considerations set forth in its opinion, the total merger consideration to be issued pursuant to the terms of the Merger Agreement is fair, from a financial point of view, to First Citizens as of such date. In requesting Olsen Palmers' advice and opinion, no instructions were given and no limitations were imposed by First Citizens upon Olsen Palmer with respect to the investigations made or procedures followed by it in rendering its opinion.

The full text of the opinion of Olsen Palmer, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Annex D to this Proxy Statement/Prospectus.

Management and Board of Directors of First Citizens Following the Merger (Page 69)

The officers and directors of each of First Citizens and First Citizens National Bank immediately prior to the effective time of the merger will continue to be officers and directors of First Citizens and First Citizens National Bank, respectively, following the merger. Mr. J. Lee Stewart, President and Chief Executive Officer of SHB, will be joining the boards of directors of First Citizens and First Citizens National Bank.

Material U.S. Federal Income Tax Consequences of the Merger (Page 53)

As a result of the structure of the merger as a reorganization, it is anticipated that SHB shareholders will not recognize gain or loss for U.S. federal income tax purposes on the exchange of shares of SHB stock for shares of First Citizens stock, except with respect to cash received in connection with the merger and cash delivered in lieu of fractional shares of First Citizens stock and except for SHB shareholders who exercise their dissenters' rights with respect to the merger.

This tax treatment may not apply to all shareholders of SHB. Determining the actual tax consequences of the merger to you can be complicated. You are urged to consult your own tax advisor for a full understanding of the merger's tax consequences that are particular to you.

First Citizens and SHB will not be obligated to complete the merger unless they each receive an opinion from their respective legal counsel, dated as of the closing date, that the merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and that First Citizens and SHB will each be a party to that reorganization. If such opinions are rendered, the U.S. federal income tax treatment of the merger should be as described above. The opinions of the parties' respective counsel, however, do not bind the Internal Revenue Service and do not preclude the IRS or the courts from adopting a contrary position.

Accounting Treatment (Page 53)

First Citizens will account for the merger under the purchase method of accounting for business combinations under United States generally accepted accounting principles (GAAP).

Interests of SHB Management and Directors in the Merger (Page 59)

Executive officers and directors of SHB will be issued shares of First Citizens stock and paid cash in the merger on the same basis as other shareholders of SHB. The following chart shows the number of shares of First Citizens stock that may be issued to executive officers, directors and principal shareholders of SHB in the merger (including shares reserved for issuance upon exercise of stock options):

Shares of stock of SHB beneficially owned by its executive officers, directors and holders of more than 10% of SHB stock on June 30, 2014	248,149
Shares of First Citizens stock that may be received in the merger by executive officers, directors and holders of more than 10% of SHB stock based upon their beneficial ownership	71,367

Some of the directors and officers of SHB have interests in the merger that differ from, or are in addition to, their interests as shareholders of SHB. These interests include the following:

- As a condition to the merger, First Citizens has required that three of the officers of SHB (J. Lee Stewart, Steve Ledbetter, and Virginia Kibble) enter into employment agreements with non-competition and non-solicitation obligations to be effective upon completion of the merger whereby each individual is entitled to receive a salary, annual bonus, and certain additional incentives; and
- The directors and officers of SHB and Southern Heritage Bank currently covered under comparable policies held by SHB at First Citizens expense will receive directors and officers liability insurance coverage for a period of five years after completion of the merger.

SHB Shareholders May Dissent from the Merger (Page 56)

Tennessee law permits SHB shareholders to dissent from the merger and to receive the fair value of their shares of SHB stock in cash. To dissent, an SHB shareholder must follow certain procedures, including filing certain notices with SHB and voting his or her shares against approval of the Merger Agreement. The shares of SHB stock held by a dissenter will not be exchanged for stock consideration or cash consideration in the merger and a dissenter's only right will be to receive the fair value of his or her shares of SHB stock in cash. A copy of the Tennessee statute describing these dissenters' rights and the procedures for exercising them is attached as Annex B to this Proxy Statement/Prospectus. SHB shareholders who perfect their dissenters' rights and receive cash in exchange for their shares of SHB stock may recognize gain or loss for U.S. federal income tax purposes.

Tennessee law does not provide dissenters' rights to First Citizens' shareholders, who are not being asked to vote on the Merger Agreement.

We Must Obtain Regulatory Approvals to Complete the Merger (Page 53)

We cannot complete the merger unless it is approved by the Board of Governors of the Federal Reserve. First Citizens filed a Notification pursuant to Section 3(a)(5) of the Bank Holding Company Act with the Federal Reserve on April 4, 2014 (the Notification). In connection with the Notification, First Citizens was required to publish public notice of the merger in the newspapers of general circulation in the communities served by the head offices of First Citizens National Bank and Southern Heritage Bank which provided for a 30-day period for public comments. First Citizens published the required notices on April 8, 2014. The Federal Reserve is required to act on the Notification within five days of the end of the public comment period. The Federal Reserve approved the merger on May 13, 2014, and has extended the deadline by which it must close to November 13, 2014. Once the Federal Reserve approves a merger, federal law requires a waiting period of up to 30 calendar days to complete the merger in order to give the U.S. Department of Justice the opportunity to review and object to the merger.

The merger must also be approved by the Tennessee Department of Financial Institutions (the TDFI). First Citizens filed an application with the TDFI on April 4, 2014 (the Application). In connection with the Application, First Citizens was required to publish public notice of the merger in the newspapers of general circulation in each county in which First Citizens National Bank and Southern Heritage Bank have their main offices which provided for a 15-day period for public comments. First Citizens published the required notices on April 8, 2014. In addition to the Application, the TDFI was provided a copy of the Notification to the Federal Reserve and has 30 calendar days to provide any comments to the Federal Reserve on the proposed merger. The TDFI approved the application on July 24, 2014.

Further, because SHB has agreed to use its best efforts to redeem the Small Business Lending Fund (SBLF) investment by the United States Treasury in the Series D preferred stock of SHB, the Federal Reserve's consent will also be required for this redemption. The Merger Agreement requires SHB to use its best efforts to (a) cause the redemption of all SBLF preferred stock prior to the effective time of the merger such that, as of the effective time, SHB will have no SBLF preferred stock issued or outstanding, or (b) give proper notice to call for redemption of all outstanding SBLF preferred stock and deposit sufficient funds in trust for such redemption, in each case pursuant to the applicable provisions of the Small Business Lending Fund - Securities Purchase Agreement No. 0438 dated September 8, 2011, by and between SHB and the United States Department of Treasury. SHB will file a request with the Federal Reserve prior to the closing of the merger to obtain its consent to consummate the SBLF redemption.

We also intend to make all required filings with the U.S. Securities and Exchange Commission (the SEC) under the Securities Act of 1933, as amended, (the Securities Act) and the Securities Exchange Act of 1934, as amended, (the Securities Exchange Act) relating to the merger, and with applicable states securities regulatory authorities to the extent required to register the offering of First Citizens stock or to claim an exemption from registration requirements.

While we believe that we will obtain regulatory approvals in a timely manner, we cannot be certain if or when we will obtain them.

Conditions to Complete the Merger (Page 66)

The completion of the merger depends on a number of conditions being met, including the following:

- approval by SHB's shareholders of the Merger Agreement;
- approval by First Citizens' shareholders of the First Citizens charter amendment authorizing an additional class of common stock to be issued to the shareholders of First Citizens (the First Citizens Charter Amendment);
- receipt of all required regulatory approvals and expiration of all related statutory waiting periods;
- effectiveness of First Citizens' registration statement on Form S-4 of which this Proxy Statement/Prospectus constitutes a part;
- absence of any order, injunction or decree of a court or agency of competent jurisdiction which prohibits completion of the merger;
- accuracy of the other party's representations and warranties contained in the Merger Agreement, except, in the case of most of such representations and warranties, where the failure to be accurate would not be reasonably likely to have a material adverse effect on the party making the representations and warranties (see THE MERGER AGREEMENT - Representations and Warranties), and the performance by the other party of its obligations contained in the Merger Agreement in all material respects;
- absence of any statute, rule, regulation, order, injunction or decree which prohibits or makes illegal completion of the merger;
- the holders of less than 10% of the total outstanding shares of SHB stock have exercised dissenters' rights with respect to the merger;
- the receipt of opinions of legal counsel to each company, dated the effective time of the merger, substantially to the effect that the merger will be treated as a reorganization under Section 368(a) of the Code and that First Citizens and SHB will each be a party to the reorganization;
- the required consents shall have been obtained and First Citizens shall have received evidence thereof;
- the required tail coverage shall have been obtained by both companies;
- First Citizens shall have succeeded to SHB's rights, interests and obligations pursuant to the indenture and the predecessor trustee shall have been replaced by the successor trustee; and
- each of the employment agreements, direct support agreements, and director/officer releases shall remain in full force and effect.

In addition, SHB has agreed to use its best efforts to cause the redemption of all outstanding preferred stock related to its participation in the SBLF program prior to the completion of the merger.

In cases where the law permits, a party to the Merger Agreement could elect to waive a condition that has not been satisfied and complete the merger although the party is entitled not to complete the merger. We cannot be certain whether or when any of these conditions will be satisfied (or waived, where permissible) or that the merger will be completed.

Termination of the Merger Agreement (Page 67)

The Merger Agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval of the merger by SHB shareholders, as set forth in the Merger Agreement, including by mutual consent of First Citizens and SHB. In addition, the Merger Agreement may generally be terminated by either party:

- 60 days after the date on which any request or application for a requisite regulatory approval has been denied or withdrawn at the request or recommendation of the governmental entity which must grant such requisite regulatory approval, unless within the 60-day period following such denial or withdrawal a petition for rehearing or an amended application has been filed with the applicable governmental entity; provided, however, that no party shall have the right to terminate the Merger Agreement in this manner if such denial or request or recommendation for withdrawal is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe the covenants and agreements of such party as set forth in the Merger Agreement;
- if a governmental entity of competent jurisdiction issues a final nonappealable order enjoining or otherwise prohibiting the merger;
- if the merger is not completed on or before October 30, 2014, unless one or more regulatory approvals have not been received or the party seeking to terminate the Merger Agreement has failed to perform or observe the covenants and agreements of such party set forth in the Merger Agreement;
- if SHB shareholders fail to approve the Merger Agreement;
- if First Citizens shareholders fail to approve the required First Citizens Charter Amendment within 15 business days prior to the closing date of the merger (which approval was obtained on July 16, 2014); or
- if any of the representations or warranties provided by the other party set forth in the Merger Agreement become untrue or incorrect or the other party materially breaches its covenants set forth in the Merger Agreement, and the representation or material breach is not cured within the prescribed time limit.

SHB may terminate the Merger Agreement, without the consent of First Citizens, if the board of directors of SHB receives an unsolicited, bona fide alternative acquisition proposal (as defined in the Merger Agreement) and, under certain terms and conditions, determines that it is a superior proposal to that made by First Citizens as reflected in the Merger Agreement and that the failure to accept such proposal would cause the board of directors to violate its fiduciary duties under applicable law; but SHB must notify First Citizens of the superior proposal and keep First Citizens fully informed of the status and details (including amendments or proposed amendments) of any such request or acquisition proposal.

First Citizens may terminate the Merger Agreement if SHB has materially breached its non-solicitation obligations contained in the Merger Agreement in a manner adverse to First Citizens, the board of SHB resolves to accept a competing acquisition proposal or the board of SHB changes its recommendation regarding the merger.

First Citizens may also terminate the Merger Agreement if any legal proceedings are filed or threatened relating to the consummation of the merger (but not relating to the adequacy of the merger consideration) or if any actions by a governmental authority are filed or threatened relating to the consummation of the merger.

Termination Fee (Page 68)

If the Merger Agreement is terminated by:

- First Citizens because SHB materially breaches the non-solicitation obligations set forth in the Merger Agreement in a manner adverse to First Citizens;
- First Citizens because SHB's board of directors resolves to accept another acquisition proposal;
- First Citizens because SHB's board of directors withdraws, amends or modifies, in any manner adverse to First Citizens, its recommendation of shareholder approval of the Merger Agreement or the merger; or
- SHB because SHB's board of directors receives an unsolicited, bona fide alternative acquisition proposal and, under certain terms and conditions, determines that it is a superior proposal to that of the Merger Agreement taking into account any adjustments made by First Citizens to the merger consideration,

then, unless First Citizens is in material breach of any covenant or obligation under the Merger Agreement, SHB will be required to pay First Citizens a termination fee of \$1,000,000 in cash at the time it enters into a third party acquisition agreement.

If either First Citizens or SHB terminates the Merger Agreement, and within 12 months of termination of the Merger Agreement SHB enters into an acquisition agreement with a third party:

- if SHB takes any action that is intended or may reasonably be expected to result in any of its representations or warranties set forth in the Merger Agreement being or becoming untrue or materially breaching its covenants set forth in the Merger Agreement, and the representation or material breach is not cured within the prescribed time limit, and an acquisition proposal exists at the time of termination;
- without regard to timing, if SHB shareholders do not approve the Merger Agreement and an acquisition proposal exists at the time of termination,

then, unless First Citizens is in material breach of any covenant or obligation under the Merger Agreement, SHB will be required to pay First Citizens a termination fee of \$1,000,000 in cash.

Comparative Per Share Market Price Information (Page 70)

There is no established public trading market for shares of First Citizens, which is inactively traded in private transactions. Between January 1, 2013 and July 31, 2014 there were trades of approximately 44,856 shares of First Citizens common stock, which was the only class of stock issued and outstanding prior to July 17, 2014. The per share sales price for these trades has ranged from a low of \$39.00 to a high of \$45.00.

There is no established public trading market for shares of SHB stock, which is inactively traded in private transactions. Since January 1, 2013, there have been trades of approximately 7,846 shares of SHB common stock, 3,181 shares of SHB Class A common stock and 1,734 shares of SHB Class B common stock. The per share sales price for these trades has ranged from a low of \$19.00 to a high of \$24.50.

Comparison of Rights of Shareholders (Page 146)

At the effective time of the merger, SHB shareholders who receive shares of First Citizens stock will automatically become First Citizens shareholders. First Citizens is a Tennessee corporation governed by provisions of the Tennessee Business Corporation Act and First Citizens charter, as amended, and bylaws, as amended. SHB is a Tennessee corporation governed by provisions of the Tennessee Business Corporation Act, and SHB's charter, as amended, and bylaws, as amended. See COMPARISON OF RIGHTS OF SHAREHOLDERS.

RISK FACTORS

*If the merger is consummated and you are an SHB shareholder, you will receive shares of First Citizens common stock in exchange for your shares of SHB common stock and you will receive shares of First Citizens Class A common stock in exchange for your shares of SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock. An investment in First Citizens common stock is subject to a number of risks and uncertainties. Risks and uncertainties relating to general economic conditions are not summarized below. However, First Citizens and SHB believe that there are a number of other risks and uncertainties relating to First Citizens that you should consider in deciding how to vote on the Merger Agreement in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect First Citizens' future financial results and may cause First Citizens' future earnings and financial condition to be less favorable than First Citizens' expectations. There are also a number of risks related to the merger that shareholders of SHB should consider in deciding how to vote on the Merger Agreement. This section summarizes those risks. You should keep these risk factors in mind when you read forward-looking statements in this document. Please refer to the section of this Proxy Statement/Prospectus titled *Cautionary Statement Concerning Forward-Looking Information*.*

Risks Related to the Merger

The value of First Citizens shares received may fluctuate; shareholders of SHB may receive more or less value depending on fluctuations in the price of First Citizens stock and, in certain circumstances, downward adjustments to the cash portion of the merger consideration pursuant to certain provisions of the Merger Agreement

The number of shares of First Citizens stock issued to SHB shareholders in exchange for each share of SHB stock is fixed. The market values of First Citizens stock and SHB stock at the time the merger is completed may vary from their market values at the date the Merger Agreement was executed, the date of this document and at the date of the shareholders' meeting of SHB. Shares of First Citizens stock are not traded on an exchange, and therefore, as of the date of this Proxy Statement/Prospectus, there is no public market for such shares. There is no assurance that shares of First Citizens stock can be sold at a price equal to or greater than the implied per share merger value of \$24.50 per SHB share following completion of the merger. See *Risks Related to First Citizens and First Citizens Stock - Lack of Trading Market*. Because the exchange ratio will not be adjusted to reflect any changes in the market value of First Citizens stock, the market value of First Citizens stock issued in the merger may be higher or lower than the value of such shares on earlier dates. If the value of First Citizens stock declines prior to completion of the merger, the value of the merger consideration to be received by SHB's shareholders will decrease.

These variations may be the result of various factors, many of which are beyond the control of SHB and First Citizens, including:

- changes in the business, operations or prospects of First Citizens, SHB or the combined company;
- governmental and/or litigation developments and/or regulatory considerations;
- market assessments as to whether and when the merger will be consummated and the anticipated benefits of the merger;
- governmental action affecting the banking and financial industry generally;
- market assessments of the potential integration or other costs;
- lack of a trading market for First Citizens stock; and
- general market and economic conditions.

The merger may not be completed until a significant period of time has passed after the SHB shareholder meeting. At the time of the shareholder meeting, SHB shareholders will not know the exact value of the First Citizens stock that will be issued in connection with the merger.

The value of First Citizens stock and SHB stock at the effective time of the merger may vary from their prices on the date the Merger Agreement was executed, the date of this Proxy Statement/Prospectus and the date of the shareholders' meeting. Because there is no public market for either First Citizens stock or SHB stock, the future market prices of First Citizens stock and SHB stock cannot be guaranteed or predicted. Additionally, if SHB's minimum net worth at closing (SHB's total shareholders' equity, excluding (i) SHB's Series D Preferred Stock, (ii) accumulated other comprehensive income (loss), (iii) all merger costs if paid or accrued by SHB or any subsidiary of SHB and not reimbursed by SHB prior to the closing date and (iv) any accruals, provisions or charges taken by SHB at the written direction of First Citizens)

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is less than the required minimum of \$22,863,000 set forth in the Merger Agreement, then the cash portion of the merger consideration will be adjusted downward dollar for dollar by the amount of such shortfall. Assuming First Citizens did not elect to exercise its right to terminate the Merger Agreement for breach of the representation of the absence of certain changes or events pursuant to the Merger Agreement if SHB's closing net worth is significantly less than \$22,863,000 at the closing, the per share merger consideration to SHB shareholders could be significantly lower than \$24.50 per share. If the closing equity were to drop to as low as \$6,777,096.50, then SHB shareholders would receive no cash consideration and would receive only First Citizens stock for their SHB stock of 0.2876 shares of First Citizens stock for each share of SHB stock. For additional information on the possibility of a downward adjustment to the cash portion of the merger consideration, see The Merger Agreement - Terms of the Merger beginning on Page 60 of this Proxy Statement/Prospectus.

SHB's shareholders may not receive the form of merger consideration they elect.

The Merger Agreement contains provisions that are designed to ensure that 50% of the outstanding shares of SHB stock are exchanged for shares of First Citizens stock and the other 50% of the shares of SHB stock are exchanged for cash consideration; provided, however, that the Merger Agreement provides that the stock portion of the merger consideration may be increased to 55%. If elections are made by SHB shareholders that would otherwise result in more or less than 50% of such shares being converted into First Citizens stock, the amount of First Citizens stock that SHB shareholders will have elected to receive upon exchange of their shares will be adjusted so that, in the aggregate, 50% of the shares of SHB stock will be exchanged for the right to receive shares of First Citizens stock and the remaining shares of SHB stock will be exchanged for the right to receive cash. As a result, there is a risk that you will not receive a portion of the merger consideration in the form that you elect, which could result in, among other things, tax consequences that differ from those that would have resulted had you received the form of consideration you elected (including the recognition of gain for U.S. federal income tax purposes with respect to the cash received). If you do not make an election, you will be deemed to have made an election to receive the merger consideration in such combination of cash and/or shares of First Citizens stock as provided for in the Merger Agreement. Further, First Citizens may not issue its stock as merger consideration to residents of any state in which the offering of First Citizens' stock is not registered or eligible for a claim of exemption from registration. One or more state securities commissions may deny First Citizens' application for registration or claim of exemption, in which case First Citizens could not sell its stock in the subject jurisdiction.

We may fail to achieve the anticipated benefits of the merger.

First Citizens and SHB have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger.

First Citizens may fail to realize the cost savings estimated for the merger.

Although First Citizens estimates that it will realize cost savings from the merger when fully phased in, it is possible that the estimates of the potential cost savings could turn out to be incorrect. For example, the combined purchasing power may not be as strong as expected, and therefore the estimated cost savings could be reduced. In addition, unanticipated growth in First Citizens' business may require First Citizens to continue to operate or maintain some facilities or support functions that are currently expected to be combined or reduced. The cost savings estimates also depend on our ability to combine the businesses of First Citizens and SHB in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or First Citizens is not able to combine the two companies successfully, the anticipated cost savings may not be fully realized or realized at all, or may take longer to realize than expected.

The market price of shares of First Citizens stock after the merger may be affected by factors different from those affecting shares of SHB or First Citizens currently.

The businesses of First Citizens and SHB differ in some respects and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of stock may be affected by factors different from those currently affecting the independent results of operations of each of First Citizens and SHB. For a discussion of the businesses of First Citizens and SHB and of certain factors to consider in connection with those businesses, see [INFORMATION ABOUT FIRST CITIZENS](#) and [INFORMATION ABOUT SHB](#) beginning on pages 71 and 113, respectively.

The executive officers and directors of SHB have interests different from typical SHB shareholders.

The executive officers and directors of SHB have certain interests in the merger and participate in certain arrangements that are different from, or are in addition to, those of SHB shareholders generally. See THE MERGER Interests of Certain Persons in the Merger. As a result, these executive officers and directors could be more likely to approve the Merger Agreement than if they did not hold these interests.

Former shareholders of SHB will be limited in their ability to influence First Citizens' actions and decisions following the merger.

Following the merger, former shareholders of SHB will hold less than 9.5 percent of the outstanding shares of First Citizens stock, including only approximately 7 percent of the outstanding voting stock. As a result, former SHB shareholders will have only limited ability to influence First Citizens' business. Former SHB shareholders will not have separate approval rights with respect to any actions or decisions of First Citizens or, other than Mr. Stewart, have separate representation on First Citizens' board of directors.

The merger may result in a loss of current SHB employees.

Despite First Citizens' efforts to retain quality employees, First Citizens might lose some of SHB's current employees following the merger. Current SHB employees may not want to work for First Citizens or may not want to assume different duties, positions and compensation that First Citizens offers to the SHB employees. Competitors may recruit employees prior to the merger and during the integration process after the merger. As a result, current employees of SHB could leave with little or no prior notice. First Citizens cannot assure you that the combined companies will be able to attract, retain and integrate employees following the merger.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.

Before the transactions contemplated in the Merger Agreement may be completed, various approvals must be obtained from bank regulatory and other governmental authorities. These governmental entities may impose conditions on the granting of such approvals. Such conditions and the process of obtaining regulatory approvals could have the effect of delaying completion of the merger or of imposing additional costs or limitations on First Citizens following the merger. The regulatory approvals may not be received at any time, may not be received in a timely fashion, and may contain conditions on the completion of the merger that are not anticipated or cannot be met. Although First Citizens and SHB do not currently expect that any such material conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs or limiting the revenues of the combined company following the merger, any of which might have an adverse effect on the combined company following the merger.

The Merger Agreement limits SHB's ability to pursue an alternative transaction and requires SHB to pay a termination fee plus expenses incurred by First Citizens under certain circumstances relating to alternative acquisition proposals.

The Merger Agreement prohibits SHB from soliciting, initiating, encouraging or knowingly facilitating certain alternative acquisition proposals with any third party, subject to exceptions set forth in the Merger Agreement. The Merger Agreement also provides for the payment by SHB to First Citizens of a termination fee of \$1,000,000 in the event that the Merger Agreement is terminated in certain circumstances, involving, among others, certain changes in the recommendation of SHB's board of directors. These provisions may discourage a potential competing acquirer that might have an interest in acquiring SHB from considering or proposing such an acquisition. See THE MERGER AGREEMENT Termination; Termination Fee on page 68 of this prospectus/proxy statement.

The fairness opinions obtained by SHB and First Citizens from their respective financial advisors will not reflect changes in circumstances subsequent to the date of the fairness opinions.

FIG Partners, SHB's financial advisor in connection with the proposed merger, has delivered to the board of directors of SHB its opinion dated as of March 19, 2014. Olsen Palmer, First Citizens' financial advisor in connection with the proposed merger, has delivered to the board of directors of First Citizens its opinion dated as of March 19, 2014. Each opinion states that, as of the date of such opinion and based upon and subject to the factors and assumptions set forth therein, the total merger consideration was fair to their respective clients from a financial point of view.

The market price of shares of First Citizens stock after the merger may be affected by factors different from those of

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The opinions do not reflect changes that may occur or may have occurred after the date of the opinions, including changes to the operations and prospects of First Citizens or SHB, changes in general market and economic conditions or regulatory or other factors. Any such changes, or changes in other factors on which the opinions are based, may materially alter or affect the respective opinions as to the fairness of the total merger consideration to First Citizens and/or SHB.

Failure to complete the merger could cause First Citizens or SHB's stock price to decline.

If the merger is not completed for any reason, although neither First Citizens nor SHB's stock trades on an active or liquid market, First Citizens or SHB's stock price may decline because costs related to the merger, such as legal, accounting and certain financial advisory fees, must be paid even if the merger is not completed. In addition, if the merger is not completed, First Citizens or SHB's stock price may decline to the extent that the current market price reflects a market assumption that the merger will be completed or due to questions about why (or whose fault it was that) the merger was not completed.

Risks Related to First Citizens and First Citizens Stock

First Citizens is subject to credit quality risks and First Citizens' credit policies may not be sufficient to avoid losses.

First Citizens is subject to the risk of losses resulting from the failure of borrowers, guarantors and related parties to pay interest and principal amounts on loans. Although First Citizens maintains credit policies and credit underwriting, monitoring and collection procedures that management believes are sufficient to manage this risk, these policies and procedures may not prevent losses, particularly during periods in which the local, regional or national economy suffers a general decline. If a large number of borrowers fail to repay their loans, First Citizens financial condition and results of operations may be adversely affected.

Earnings could be adversely affected if values of other real estate owned decline.

First Citizens is subject to the risk of losses from the liquidation and/or valuation adjustments on other real estate owned. First Citizens owns approximately 70 properties totaling \$5.8 million in other real estate owned as of June 30, 2014. Other real estate owned is valued at the lower of cost or fair market value less cost to sell. Fair market values are based on independent appraisals for properties valued at \$50,000 or greater and appraisals are updated annually. First Citizens may incur future losses on these properties if economic and real estate market conditions result in further declines in the fair market value of these properties.

If First Citizens' allowance for loan losses becomes inadequate, First Citizens' financial condition and results of operations could be adversely affected.

First Citizens maintains an allowance for loan losses that it believes is a reasonable estimate of known and inherent potential losses in its loan portfolio. Management uses various assumptions and judgments to evaluate on a quarterly basis the adequacy of the allowance for loan losses in accordance with GAAP as well as regulatory guidelines. The amount of future losses is susceptible to changes in economic, operating and other conditions, as well as changes in interest rates most of which are beyond First Citizens' control, and these losses may exceed current estimates. Although First Citizens believes the allowance for loan losses is a reasonable estimate of known and inherent potential losses in its loan portfolio, First Citizens cannot fully predict such potential losses or that its loan loss allowance will be adequate in the future. Excessive loan losses could have an adverse effect on First Citizens' financial performance.

Federal and state regulators periodically review First Citizens' allowance for loan losses and may require First Citizens to increase its provision for loan losses or recognize further loan charge-offs, based on judgments different than those of its management. Any increase in the amount of First Citizens' provision or loans charged-off as required by these regulatory agencies could have an adverse effect on First Citizens' results of operations.

Changes in interest rates could have an adverse effect on First Citizens' earnings.

First Citizens' profitability is in part a function of interest rate spread, or the difference between interest rates earned on investments, loans and other interest-earning assets and the interest rates paid on deposits and other interest-bearing liabilities. Interest rates are largely driven by monetary policies set by the Federal Open Market Committee, or FOMC, and trends in the prevailing market rate of interest embodied by the yield curve. The FOMC establishes target rates of interest to influence the cost and availability of capital and promote national economic goals. In January 2012, the FOMC indicated that rates would most likely remain at the historical low of a range of 0.00% to 0.25% through the end of 2014. The yield curve is a representation of the relationship between short-term interest rates to longer-term debt maturity rates. Currently, the yield curve is fairly steep as short-term rates continue at historic lows. As of December 31, 2013, First Citizens National Bank was liability

sensitive in terms of interest rate risk exposure, meaning that First Citizens National Bank will likely experience margin compression when federal funds rates increase. In other words, upward pressure on deposit interest rates will outpace increases in the interest rates on interest-earning assets. Deposits are currently priced at historically low levels and are likely to reprice at a faster pace than interest-earning assets when the rate environment begins rising. The majority of variable-rate loans are priced at floors that will require significant increases in federal fund and prime rates before loan yields increase.

If the rate of interest paid on deposits and other borrowings increases more than the rate of interest earned on loans and other investments, First Citizens' net interest income and, therefore, earnings could be adversely affected. Earnings could also be adversely affected if the rates on loans and other investments fall more quickly than those on deposits and other borrowings. While management takes measures to guard against interest rate risk, there can be no assurance that such measures will be effective in minimizing the exposure to interest rate risk. A sudden and significant increase in the market rate of interest could have a material adverse effect on the First Citizens' financial position and earnings.

First Citizens is an emerging growth company and it cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make First Citizens' stock less attractive to investors.

After filing the registration statement, of which this Proxy Statement/Prospectus is a part, First Citizens will be subject to periodic reporting requirements under the Exchange Act. First Citizens is an emerging growth company, as defined in the Jumpstart Our Business Startups Act (the JOBS Act), however, and it may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, even if First Citizens complies with the greater obligations of public companies that are not emerging growth companies immediately after this offering, First Citizens may avail itself of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as it is an emerging growth company. First Citizens may remain an emerging growth company for up to five years, though First Citizens may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of such five year period, it is deemed to be a large accelerated filer under the SEC rules (which depends on, among other things, having a market value of common stock held by non-affiliates in excess of \$700 million) or if First Citizens' total annual gross revenues equal or exceed \$1 billion in a fiscal year. First Citizens cannot predict if investors will find its common stock less attractive because it will rely on these exemptions. If some investors find First Citizens' common stock less attractive as a result, there may be a less active trading market for First Citizens' common stock and First Citizens' stock price may be more volatile.

First Citizens is geographically concentrated in West Tennessee, and changes in local economic conditions may impact its profitability.

First Citizens operates primarily in West Tennessee and the majority of all loan customers and most deposit and other customers live or have operations in this area. Accordingly, First Citizens' success depends significantly upon growth in population, income levels, deposits, housing starts and continued attraction of business ventures to this area. First Citizens' profitability is impacted by changes in general economic conditions in this market. First Citizens is concerned about the impact of plant closings (such as Goodyear and Briggs & Stratton) and their impact to unemployment levels and economic conditions in its rural markets. Additionally, unfavorable local or national economic conditions could reduce First Citizens' growth rate, affect the ability of its customers to repay their loans and generally affect First Citizens' financial condition and results of operations.

First Citizens is less able than larger institutions to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, First Citizens is unable to give assurance that it will benefit from any market growth or favorable economic conditions in its primary market areas if they do occur.

If financial market conditions worsen or First Citizens' loan demand increases significantly, First Citizens' liquidity position could be adversely affected. First Citizens may be required to rely on secondary sources of liquidity to meet withdrawal needs or fund operations, and there can be no assurance that these sources will be sufficient to meet future liquidity demands.

First Citizens relies on dividends from the First Citizens National Bank as its primary source of funds. First Citizens National Bank's primary sources of funds are client deposits and loan repayments and from the sale or maturity of securities. While scheduled loan repayments have historically been a relatively stable source of funds, they are susceptible to the inability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, natural disasters and national or international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic conditions. Accordingly, First Citizens may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank (FHLB) advances, sales of securities and loans, and federal funds lines of credit from

correspondent banks, as well as out-of-market time deposits. While First Citizens believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if First Citizens continues to grow and experience increasing loan demand. First Citizens may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

Market conditions could adversely affect First Citizens ability to obtain additional capital on favorable terms should it need it.

First Citizens business strategy calls for continued growth. First Citizens anticipates that it will be able to support this growth through the generation of additional deposits at new branch locations, as well as through returns realized as a result of investment opportunities. However, First Citizens may need to raise additional capital in the future to support continued growth and maintain adequate capital levels. First Citizens may not be able to obtain additional capital in the amounts or on terms satisfactory to it. Growth may be constrained if First Citizens is unable to raise additional capital as needed.

Failure to remain competitive in an increasingly competitive industry may adversely affect results of operations and financial condition.

First Citizens encounters strong competition from other financial institutions in its market areas. In addition, established financial institutions not already operating in First Citizens market areas may open branches in its market areas at future dates or may compete in the market via the internet. Certain aspects of First Citizens banking business also compete with savings institutions, credit unions, mortgage banking companies, consumer finance companies, insurance companies and other institutions, some of which are not subject to the same degree of regulation or restrictions imposed on First Citizens. Many of these competitors have substantially greater resources and lending limits and are able to offer services that First Citizens does not provide. While First Citizens believes that it competes effectively with these other financial institutions in its market areas, First Citizens may face a competitive disadvantage as a result of its smaller size, smaller asset base, lack of geographic diversification and inability to spread its marketing costs across a broader market. If First Citizens has to raise interest rates paid on deposits or lower interest rates charged on loans to compete effectively, First Citizens net interest margin and income could be negatively affected. Failure to compete effectively to attract new or to retain existing clients may reduce or limit First Citizens margins and its market share and may adversely affect First Citizens results of operations and financial condition.

First Citizens and its subsidiaries are subject to extensive government regulation and supervision. Changes in laws, government regulation and monetary policy may have a material adverse effect on our results of operations.

First Citizens and its subsidiaries are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not First Citizens shareholders. These regulations affect First Citizens lending practices, capital structure, investment practices and dividend policy and growth, among other things. Future changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect First Citizens in substantial and unpredictable ways. Such changes could subject First Citizens to additional costs, limit the types of financial services and products First Citizens may offer and/or increase the ability of non-banks to offer competing financial services and products, or decrease the flexibility in pricing certain products and services by First Citizens National Bank, among other things. Failure to comply with laws, regulations or policies could result in sanctions imposed by regulatory agencies, civil money penalties, civil liability and/or reputation damage, which could have a material adverse effect on First Citizens financial condition and results of operations. While First Citizens policies and procedures are designed to deter and detect any such violations, there can be no assurance that such violations will not occur.

First Citizens stock is not listed or traded on any established securities market and is normally less liquid than most securities traded in those markets; First Citizens anticipates filing to revert to non-reporting status following the merger.

First Citizens stock is not listed or traded on any established securities exchange or market and First Citizens has no plans to seek to list its stock on any recognized exchange or qualify it for trading in any market. Accordingly, First Citizens stock has substantially fewer trades than the average securities listed on any national securities exchange. Most transactions in First Citizens stock are privately negotiated trades and its stock is very thinly traded. There is no dealer for First Citizens stock and no market maker. First Citizens shares do not have a trading symbol. The lack of a liquid market can produce downward pressure on First Citizens stock price and can reduce the marketability of First Citizens stock.

If First Citizens registration statement on Form S-4 becomes effective under the Securities Act, First Citizens will be required to file with the SEC the periodic and current reports required by the Securities Exchange Act and related rules and regulations. It is the intent of First Citizens management, and the merger consideration has been structured to permit First Citizens management, to apply to the SEC in 2015 to go dark so as not to continue being required to comply with these filing requirements. If First Citizens is eligible to discontinue SEC filings, SHB shareholders who receive First Citizens stock in the merger will have access to less information about the financial condition and results of

operations of First Citizens than would be the case if SEC filings were continued.

First Citizens' ability to pay dividends may be limited.

As a holding company, First Citizens is a separate legal entity from First Citizens National Bank and does not conduct significant income-generating operations of its own. It currently depends upon First Citizens National Bank's cash and liquidity to pay dividends to its shareholders. First Citizens cannot provide assurance that First Citizens National Bank will have the capacity to pay dividends to First Citizens in the future. Various statutes and regulations limit the availability of dividends from First Citizens National Bank. It is possible that, depending upon First Citizens National Bank's financial condition and other factors, First Citizens National Bank's regulators could assert that payment of dividends by First Citizens National Bank to First Citizens is an unsafe or unsound practice. In the event that First Citizens National Bank is unable to pay dividends to First Citizens, First Citizens may not be able to pay dividends to its shareholders.

A failure or breach of First Citizens' operational or security systems or infrastructure, or those of First Citizens' third party vendors and other service providers or other third parties, including as a result of cyber-attacks, could disrupt First Citizens' businesses, result in the disclosure or misuse of confidential or proprietary information, damage its reputation, increase its costs, and cause losses.

First Citizens relies heavily on communications and information systems to conduct its business. Information security risks for financial institutions such as First Citizens have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, and terrorists, activists, and other external parties. As customer, public, and regulatory expectations regarding operational and information security have increased, First Citizens' operating systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. First Citizens' business, financial, accounting, and data processing systems, or other operating systems and facilities, may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond First Citizens' control. For example, there could be electrical or telecommunication outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and as described below, cyber-attacks.

As noted above, First Citizens' business relies on its digital technologies, computer and email systems, software and networks to conduct its operations. Although First Citizens has information security procedures and controls in place, First Citizens' technologies, systems and networks and its customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of First Citizens' or its customers' or other third parties' confidential information. Third parties with whom First Citizens does business or that facilitate First Citizens' business activities, including financial intermediaries, or vendors that provide service or security solutions for First Citizens' operations, and other unaffiliated third parties, could also be sources of operational and information security risk to First Citizens, including from breakdowns or failures of their own systems or capacity constraints.

While First Citizens has disaster recovery and other policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. First Citizens' risk and exposure to these matters remain heightened because of the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of First Citizens' controls, processes, and practices designed to protect its systems, computers, software, data, and networks from attack, damage or unauthorized access remain a focus for First Citizens. As threats continue to evolve, First Citizens may be required to expend additional resources to continue to modify or enhance its protective measures or to investigate and remediate information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support First Citizens' businesses and clients, or cyber-attacks or security breaches of the networks, systems or devices that First Citizens' clients use to access First Citizens' products and services could result in client attrition, regulatory fines, penalties or intervention, reputation damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could have a material effect on First Citizens' results of operations or financial condition.

Shares of First Citizens stock are not insured.

Shares of First Citizens stock are not deposits and are not insured by the Federal Deposit Insurance Corporation (the "FDIC") or any other entity.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF FIRST CITIZENS

The following table sets forth selected consolidated historical financial data of First Citizens. The selected consolidated historical financial data as of and for each of the two years ended December 31, 2013 and 2012 is derived from First Citizens' audited financial statements. The selected consolidated historical financial data as of and for each of the six-month periods ended June 30, 2014 and 2013 is derived from First Citizens' unaudited financial statements for those periods. You should not assume that the results of operations for past periods and for any interim period indicate results for any future period. You should read this information in conjunction with First Citizens' consolidated financial statements and related notes included in this Proxy Statement/Prospectus beginning on Page F-3.

	For the Six Months Ended June 30, 2014¹	For the Six Months Ended June 30, 2013¹	For the Year Ended December 31, 2013²	For the Year Ended December 31, 2012²
Earnings Summary:				
(Dollars in thousands, except per share amounts)				
Interest revenue	\$22,297	\$ 22,034	\$ 44,122	\$44,111
Interest expense	2,936	3,161	6,214	7,377
Net interest revenue	19,361	18,873	37,908	36,734
Provision for credit losses	375	525	775	650
Net interest revenue, after provision for credit losses	18,986	18,348	37,133	36,084
Noninterest revenue	7,558	6,901	14,030	12,454
Noninterest expense	17,038	16,378	33,341	31,017
Income before income taxes	9,506	8,871	17,822	17,521
Income tax expense	2,248	2,109	4,014	4,006
Net income	\$ 7,258	\$ 6,762	\$ 13,808	\$13,515
Balance Sheet - End of Period Balances:				
Total assets	\$1,199,609	\$1,181,378	\$1,174,472	\$1,178,325
Total securities	446,907	435,408	456,525	466,419
Loans and leases, net of unearned income	611,233	585,131	580,236	549,452
Total deposits	967,173	941,988	968,530	964,839
Long-term debt	54,611	59,348	51,167	48,719
Total equity	122,005	110,246	112,606	114,140
Balance Sheet - Average Balances:				
Total assets	1,185,554	1,164,311	1,165,215	1,083,182
Total securities	459,840	471,382	452,938	399,386
Loans and leases, net of unearned income	596,337	565,217	575,367	536,180
Total deposits	969,619	946,125	947,319	875,945
Long-term debt	51,710	56,165	56,407	49,042
Total equity	118,561	116,295	114,489	110,656
Common Share Data:				
Basic earnings per share	\$ 2.01	\$ 1.87	\$ 3.83	\$ 3.75
Diluted earnings per share	2.01	1.87	3.83	3.75
Cash dividends per share	0.50	0.50	1.30	1.20
Book value per share	33.82	30.56	31.21	31.64
Tangible book value per share	28.93	26.27	27.43	24.89
Dividend payout ratio	24.88%	26.73%	33.94%	32.00%

¹ Derived from unaudited financial statements.

² Derived from audited financial statements.

	For the Six Months Ended June 30, 2014 ¹	For the Six Months Ended June 30, 2013 ¹	For the Year Ended December 31, 2013 ²	For the Year Ended December 31, 2012 ²
Financial Ratios:				
Return on average assets	1.23%	1.17%	1.19%	1.25%
Return on average shareholders equity	12.34%	11.73%	12.06%	12.21%
Total shareholders' equity to total assets	10.17%	9.51%	9.57%	9.69%
Tangible shareholders' equity to tangible assets	8.80%	8.28%	8.53%	7.71%
Net interest margin-fully taxable equivalent	3.86%	3.80%	3.83%	4.01%
Credit Quality Ratios:				
Net charge-offs to average loans and leases	0.06%	0.11%	0.16%	0.14%
Provision for credit losses to average loans and leases	0.06%	0.09%	0.13%	0.12%
Allowance for credit losses to net loans and leases	1.28%	1.33%	1.35%	1.45%
Allowance for credit losses to non-performing loans	94.85%	74.21%	91.63%	89.25%
Allowance for credit losses to non-performing assets	55.82%	41.61%	50.91%	44.44%
Non-performing loans to net loans and leases	1.35%	1.80%	1.47%	1.62%
Non-performing assets to net loans and leases	2.29%	3.21%	2.65%	3.26%
Capital Ratios:				
Tier 1 capital	16.77%	15.96%	16.41%	15.86%
Total capital	17.91%	17.16%	17.58%	17.12%
Tier 1 leverage capital	9.78%	9.11%	9.40%	9.17%

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF SHB

The following table sets forth selected consolidated historical financial data of SHB. The selected consolidated historical financial data as of and for each of the two years ended December 31, 2013 and 2012 is derived from SHB's audited financial statements. The selected consolidated historical financial data as of and for each of the six-month periods ended June 30, 2014 and 2013 is derived from SHB's unaudited financial statements for those periods. You should not assume that the results of operations for past periods and for any interim period indicate results for any future period. You should read this information in conjunction with SHB's consolidated financial statements and related notes included in this Proxy Statement/Prospectus beginning on Page F-65.

	For the Six Months Ended June 30, 2014¹	For the Six Months Ended June 30, 2013¹	For the Year Ended December 31, 2013²	For the Year Ended December 31, 2012²
Earnings Summary:				
(Dollars in thousands, except per share amounts)				
Interest revenue	\$4,383	\$4,714	\$9,287	\$9,492
Interest expense	566	631	1,202	1,499
Net interest revenue	3,817	4,083	8,085	7,993
Provision for credit losses	77	2	124	980
Net interest revenue, after provision for credit losses	3,740	4,081	7,961	7,013
Noninterest revenue	1,487	1,584	2,776	3,993
Noninterest expense	3,551	3,546	7,166	7,317
Income before income taxes	1,676	2,119	3,571	3,689
Income tax expense	402	607	846	1,030
Net income	\$1,274	\$1,512	\$2,725	\$2,659
Balance Sheet - End of Period				
Balances:				
Total assets	\$243,547	\$238,531	\$237,078	\$242,822
Total securities	78,155	65,906	68,966	57,340
Loans and leases, net of unearned income	131,457	142,307	136,034	149,288
Total deposits	209,008	207,968	205,345	208,486
Long-term debt	5,155	5,155	5,155	5,155
Total equity	27,698	24,357	25,184	26,002
Balance Sheet - Average				
Balances:				
Total assets	240,313	240,677	239,014	228,540
Total securities	75,183	62,882	64,399	59,993
Loans and leases, net of unearned income	132,987	147,108	142,062	141,366
Total deposits	210,181	208,114	206,522	196,738
Long-term debt	5,155	5,155	5,155	5,155
Total equity	26,441	25,180	25,593	24,902
Common Share Data:				
Basic earnings per share	0.97	1.18	2.10	2.00
Diluted earnings per share	0.97	1.18	2.10	2.00
Cash dividends per share	0.42	0.41	0.41	0.31
Book value per share	17.63	15.24	15.67	16.55
Tangible book value per share	18.01	16.53	17.45	15.77
Dividend payout ratio	42.59%	35.26%	19.60%	15.63%

¹ Derived from unaudited financial statements.

² Derived from audited financial statements.

	For the Six Months Ended June 30, 2014¹	For the Six Months Ended June 30, 2013¹	For the Year Ended December 31, 2013²	For the Year Ended December 31, 2012²
Financial Ratios:				
Return on average assets	1.05%	1.25%	1.12%	1.10%
Return on average shareholders equity	9.53%	11.90%	10.44%	10.12%
Total shareholders equity to total assets	11.37%	10.21%	10.62%	10.71%
Tangible shareholders equity to tangible assets	9.48%	8.75%	9.43%	8.20%
Net interest margin-fully taxable equivalent	3.73%	4.10%	4.07%	4.13%
Credit Quality Ratios:				
Net charge-offs/(recoveries) to average loans and leases	0.03%	0.08%	0.30%	0.92%
Provision for credit losses to average loans and leases	0.12%	0.00%	0.09%	0.69%
Allowance for credit losses to net loans and leases	1.54%	1.56%	1.45%	1.52%
Allowance for credit losses to non-performing loans	73.43%	156.64%	198.89%	152.48%
Allowance for credit losses to non-performing assets	64.26%	71.34%	88.60%	90.92%
Non-performing loans to net loans and leases	2.10%	1.00%	0.73%	1.00%
Non-performing assets to net loans and leases	2.39%	2.18%	1.63%	1.67%
Capital Ratios:				
Tier 1 capital	21.68%	19.44%	20.61%	18.35%
Total capital	20.43%	18.19%	19.46%	17.10%
Tier 1 leverage capital	13.42%	12.76%	13.60%	12.74%

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma combined consolidated financial information and accompanying notes show the impact on the historical financial condition and results of operations of First Citizens and SHB and have been prepared to illustrate the effects of the merger under the acquisition method of accounting. See THE MERGER - Accounting Treatment.

The unaudited pro forma combined consolidated balance sheet as of June 30, 2014 is presented as if the merger had occurred on June 30, 2014. The unaudited pro forma combined consolidated income statements for the year ended December 31, 2013 and the six months ended June 30, 2014 are presented as if the merger had occurred on January 1, 2013. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the merger and, with respect to the income statements only, expected to have a continuing impact on consolidated results of operations.

The selected unaudited pro forma combined consolidated financial statements are provided for informational purposes only. The unaudited pro forma combined consolidated financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the merger been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma combined consolidated financial statements and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma combined consolidated financial statements should be read together with:

- the accompanying notes to the unaudited pro forma combined consolidated financial statements;
- First Citizens' audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2013, included beginning on Page F-3 in this Proxy Statement/Prospectus;
- SHB's audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2013, included beginning on Page F-65 elsewhere in this Proxy Statement/Prospectus;
- First Citizens' unaudited condensed consolidated financial statements and accompanying notes as of and for the six months ended June 30, 2014, included beginning on Page F-43 in this Proxy Statement/Prospectus;
- SHB's unaudited consolidated financial statements and accompanying notes as of and for the six months ended June 30, 2014, included beginning on Page F-97 in this Proxy Statement/Prospectus; and
- other information pertaining to First Citizens and SHB included elsewhere in this Proxy Statement/Prospectus.

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES**UNAUDITED PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET****JUNE 30, 2014**

(all amounts are in thousands, except per share data, unless otherwise indicated)

	First Citizens Bancshares, Inc. 6/30/2014	Southern Heritage Bancshares, Inc. 6/30/2014	Redemption of Series D Preferred Stock (SBLF)	Purchase Accounting Adjustments	Pro Forma Adjustments	Pro Forma 6/30/2014 Combined
	(as reported)	(as reported)	(a)	(b)	(p)	
Cash and cash equivalents	\$ 26,343	\$ 25,275	\$(5,105)	\$(2,087)	\$(1,000)	\$43,426
Interest bearing deposits in banks	23,523	101				23,624
Available-for-sale investment securities	446,907	78,155				525,062
Loans, net of unearned income	611,233	131,457		(5,131)		737,559
Allowance for loan losses	(7,807)	(2,023)		2,023		(7,807)
Net loans	603,426	129,434		(3,108)		729,752
Mortgage loans held for sale	3,734	2,608				6,342
Premises and equipment	35,007	4,021		1,300		40,328
Other real estate owned	5,755	393		-		6,148
Goodwill	13,651	-		9,928		23,579
Other intangible assets	362	-		1,561		1,923
Other assets	40,901	3,560				44,461
Total assets	\$1,199,609	\$243,547	\$(5,105)	\$7,594	\$(1,000)	\$1,444,645
Deposits:						
Non-interest bearing	\$ 136,950	\$ 31,740				\$168,690
Interest bearing	830,223	177,268		452		1,007,943
Total deposits	\$967,173.00	\$209,008.00	-	452	-	1,176,633
Borrowings	103,685	5,155		10,450		119,290
Other liabilities	6,746	1,686		290	(340)	8,382
Total liabilities	1,077,604	215,849	-	11,192	(340)	1,304,305
Equity						
Preferred stock	-	5,105	(5,105)			-
Common Stock	3,718	1,281		(1,281)		3,718
Surplus	15,331	16,426		569		32,326
Retained earnings	100,344	5,372		(5,372)	(660)	99,684
Accumulated other comprehensive income	3,631	(486)		486		3,631
Treasury stock, at cost	(3,074)	-				(3,074)
Total shareholders equity	119,950	27,698	(5,105)	(5,598)	(660)	136,285
Non-controlling interest in consolidated subsidiary	2,055	-		2,000		4,055
	122,005	27,698	(5,105)	(3,598)	(660)	140,340

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Total shareholders equity							
Total liabilities and shareholders equity	\$1,199,609	\$243,547	\$(5,105)	\$7,594		\$(1,000)	\$1,444,645
Basic common shares outstanding	3,607	1,282		(904)	(o)		3,985
Book value per basic common share outstanding	\$33.82	\$17.63					\$35.22

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES**UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED INCOME STATEMENT****YEAR ENDED DECEMBER 31, 2013**

(all amounts are in thousands, except per share data, unless otherwise indicated)

	First Citizens Bancshares, Inc. 12/31/2013	Southern Heritage Bancshares, Inc. 12/31/2013			Pro Forma Combined 12/31/2013
	(as reported)	(as reported)			
Interest Income:					
Interest and fees on loans	\$32,156	\$ 7,450	\$ 421	(c)	\$40,027
Interest income on securities	11,865	1,823	169	(n)	13,857
Other interest income	101	14			115
Total interest income	\$44,122.00	\$9,287.00	\$590.00		\$53,999
Interest expense:					
Interest expense on deposits	4,829	1,080	(226)	(j)	5,683
Interest expense on borrowings	1,385	122	517	(k)	2,024
Total interest expense	6,214	1,202	291		7,707
Net interest income	37,908	8,085	299		46,292
Provision for loan losses	775	124			899
Net interest income after provision	37,133	7,961	299		45,393
Non-interest income:					
Mortgage banking income	1,445	1,452			2,897
Service charges on deposit accounts	4,798	487			5,285
Gain on sale of securities	1,256	164			1,420
Other non-interest income	6,531	621			7,152
Total non-interest income	14,030	2,724			16,754
Non-interest expense:					
Salaries and employee benefits	18,906	3,896			22,802
Net occupancy and depreciation expense	3,681	360	28	(e)	4,069
Amortization of intangibles	42		156	(h)	198
Other non-interest expense	10,712	2,858	120	(m)	13,690
Total non-interest expense	33,341	7,114	304		40,759
Net income before income taxes	17,822	3,571	(5)		21,388
Income tax expense	4,014	846	(2)	(q)	4,858
Net income	\$13,808	\$2,725	\$(3)		\$16,530
Preferred stock dividends	-	52	(52)		-
Net income available to common shareholders	\$13,808	\$2,673	\$49		\$16,530
Earnings per common share	\$3.83	\$0.97			\$4.15
Weighted average common shares outstanding	3,607	1,272			3,985

FIRST CITIZENS BANCSHARES, INC. AND SUBSIDIARIES**UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED INCOME STATEMENT****SIX MONTHS ENDED JUNE 30, 2014**

(all amounts are in thousands, except per share data, unless otherwise indicated)

	First Citizens Bancshares, Inc. 6/30/2014	Southern Heritage Bancshares, Inc. 6/30/2014			Pro Forma Combined 6/30/2014
	(as reported)	(as reported)			
Interest Income:					
Interest and fees on loans	\$ 16,026	\$ 3,296	\$210	(c)	\$ 19,532
Interest income on securities	6,234	1,066	84	(n)	7,384
Other interest income	37	21			58
Total interest income	22,297	4,383	294		26,974
Interest expense:					
Interest expense on deposits	2,325	506	(114)	(j)	2,717
Interest expense on borrowings	611	60	260	(k)	931
Total interest expense	2,936	566	146		3,648
Net interest income	19,361	3,817	148		23,326
Provision for loan losses	375	77			452
Net interest income after provision	18,986	3,740	148		22,874
Non-interest income:					
Mortgage banking income	507	558			1,065
Service charges on deposit accounts	2,244	217			2,461
Gain on sale of securities	1,291	326			1,617
Other non-interest income	3,516	386			3,902
Total non-interest income	7,558	1,487	-		9,045
Non-interest expense:					
Salaries and employee benefits	9,791	1,882			11,673
Net occupancy and depreciation expense	1,862	171			2,033
Amortization of intangibles	21	-	78	(h)	99
Other non-interest expense	5,364	1,498	60	(m)	6,922
Total non-interest expense	17,038	3,551	138		20,727
Net income before income taxes	9,506	1,676	10		11,192
Income tax expense	2,248	402	3	(q)	2,653
Net income	\$ 7,258	\$ 1,274	\$ 7		\$ 8,539
Preferred stock dividends	-	(25)	25		-
Net income available to common shareholders	\$7,258	\$1,249	\$32		\$8,539
Earnings per common share	\$2.01	\$0.99			\$2.14
Weighted average common shares outstanding	3,607	1,282			3,985

NOTES TO UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(all amounts are in thousands, except per share data, unless otherwise indicated)

Note 1 Basis of Pro Forma Presentation

The unaudited pro forma combined consolidated balance sheet as of June 30, 2014 and the unaudited pro forma combined consolidated income statements for the year ended December 31, 2013 and six months ended June 30, 2014 are based on the historical financial statements of First Citizens and SHB after giving effect to the completion of the merger and the assumptions and adjustments described in the accompanying notes. The unaudited pro forma combined consolidated balance sheet as of June 30, 2014 gives effect to the merger as if it occurred on that date. The unaudited pro forma combined consolidated income statements for the year ended December 31, 2013 and six months ended June 30, 2014 gives effect to the merger as if it occurred on January 1, 2013. Such financial statements do not reflect any cost savings or operating synergies which may occur subsequent to the merger, or the cost to achieve such cost savings or operating synergies or any anticipated disposition of assets which may result from integration of the operations of the two companies. The unaudited pro forma information is presented solely for informational purposes and is not necessarily indicative of the combined results of operation or financial position that might have been achieved for the period indicated, nor is it necessarily indicative of the future results of the combined company. Certain historical financial information has been reclassified to conform to the current presentation.

The transaction will be accounted for under the acquisition method of accounting in accordance with the Accounting Standard Codification (ASC) Topic 805, *Business Combinations* (ASC 805). Under ASC 805, all of the assets acquired and liabilities assumed in a business combinations are recognized at their acquisition-date fair values, while transaction costs and restructuring costs associated with the business combination are expensed as incurred. The excess of the purchase price over the fair value of assets acquired and liabilities assumed, if any, net of deferred tax allocations, is recorded to goodwill.

The actual amounts recorded as of the completion of the merger may differ materially from the information presented in these unaudited pro forma combined financial statements as a result of:

- changes in the fair values of SHB s assets and liabilities;
- changes used or generated in SHB s operations between signing of the merger agreement and completion of the merger;
- other changes in SHB s net assets that occur prior to completion of the merger; and
- actual financial results of the combined company.

Note 2 Pro Forma Allocation of Purchase Price

The following table shows the pro forma allocation of purchase price to net assets acquired and the pro forma goodwill generated from the transaction:

<i>Purchase Price:</i>		
SHB shares outstanding as of June 30, 2014 (less SBLF shares)	1,313,135	
Fixed exchange ratio	0.2876	
First Citizens shares to be issued for SHB shares	377,658	
Price per share based on First Citizens as of July 31, 2014	\$45.00	
Aggregate pro forma value of First Citizens stock to be issued	\$ 16,995	
Aggregate cash consideration at \$12.25 per SHB share	16,087	
Total pro forma purchase price		\$33,082
<i>Net assets acquired:</i>		
Cash and cash equivalents	20,170	
Interest bearing deposits in banks	101	
Available-for-sale investment securities	78,155	
Loans, net of unearned income	126,326	
Mortgage loans held for sale	2,608	
Premises and equipment	5,321	
Other real estate owned	393	
Other intangible assets	1,561	
Other assets	3,560	
Total assets	238,195	
Non-interest bearing deposits	31,740	
Interest bearing deposits	177,720	
Total deposits	209,460	
Borrowings	3,605	
Other liabilities	1,976	
Total liabilities	215,041	
Net assets acquired		23,154
Goodwill		\$ 9,928

Note 3 Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments

The following preliminary unaudited pro forma adjustments have been reflected in the unaudited condensed combined financial information. All adjustments are based on current valuations and assumptions which are subject to change. The descriptions related to these preliminary adjustments are as follows (in thousands):

- (a) *Redemption of SHB's Series D Preferred Stock*-Cash and shareholders' equity were adjusted for the redemption of SHB's Series D preferred stock issued through the Small Business Lending Fund (SBLF). This redemption of \$5,105 is expected to occur prior to closing at par value with no discount or premium.
- (b) *Purchase Accounting Adjustments*-Adjustments to cash consist of the net cash consideration of \$12.25 per share which aggregates to cash out flow of \$16,087 and net cash inflow from issuance of line of credit of \$12,000 at the holding company level of First Citizens and issuance of REIT preferred stock of \$2,000. (See also note (m) below).
- (c) *Purchase Accounting Adjustments*-Based on First Citizens' initial evaluation of the acquired portfolio of loans, a fair value adjustment of \$5,131 was recorded which includes both an interest rate component and a credit component. The interest rate component totaled approximately \$631 and will be amortized over the remaining estimated life of the loan portfolio. The impact of the adjustment was an increase to interest income by approximately \$421 and \$210 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.
- (d) *Purchase Accounting Adjustments*-The allowance for loan losses was adjusted to reflect the reversal of SHB's recorded allowance. Purchased loans acquired in a business combination are required to be recorded at fair value, and the recorded allowance for loan losses may not be carried over. While First Citizens anticipates significantly reducing the provision for

loan losses as a result of the acquired loans being recorded at fair value, no adjustment to the historic amounts of SHB s provision has been recorded in the Pro Forma Combined Condensed Consolidated Income Statements.

- (e) *Purchase Accounting Adjustments*-Fair value adjustment to the net book value of property held by SHB is \$1,300 based on First Citizens' initial evaluation of comparable sales and other relevant market information obtained from an independent third party. Of this adjustment, \$1,100 is allocated to buildings and will be amortized over estimated useful life of 39 years. The impact of the adjustment was an increase in depreciation expense of \$28 and \$12 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.
- (f) *Purchase Accounting Adjustments*-Based on First Citizens' initial evaluation of the acquired portfolio, no adjustment is recognized to SHB's other real estate owned and thus, has no impact on the Pro Forma Combined Condensed Consolidated Income Statements.
- (g) *Purchase Accounting Adjustments*-Goodwill of \$9,928 was generated as a result of the total purchase price and net assets acquired. See Note 2, *Pro Forma Allocation of Purchase Price*, for the allocation of the purchase price to net assets acquired. The adjustment has no impact on the Pro Forma Combined Condensed Consolidated Income Statements.
- (h) *Purchase Accounting Adjustments*-Based on First Citizens' initial evaluation of core deposits, the identified core deposit intangible of \$1,561 will be amortized on a straight line basis over an estimated useful life of 10 years. The amortization expense associated with the core deposit intangible was an increase to non-interest expense of \$156 and \$78 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.
- (i) *Purchase Accounting Adjustments*-The adjustment of approximately \$290 reflects deferred taxes associated with the adjustments to record the assets and liabilities of SHB at fair value using First Citizens' statutory rate of 34%.
- (j) *Purchase Accounting Adjustments*-A fair value adjustment of \$452 is recorded to fixed-rate deposit liabilities based on current rates offered by First Citizens for similar instruments. The adjustment will be recognized over the estimated remaining term of related deposit liabilities. The impact of the adjustment was to decrease deposit interest expense by \$226 and \$114 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.
- (k) *Purchase Accounting Adjustments*-A fair value adjustment of \$1,550 was recorded as a decrease to SHB's outstanding long-term debt which consists of subordinated debentures totaling \$5,155. This adjustment will be recognized over the estimated expected life of the long-term debt instruments. The impact of the adjustment was to increase interest expense on borrowings by \$154 and \$78 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.

An increase of \$12,000 to borrowings is reflected to account for the line of credit to be issued at the holding company level of First Citizens. The proceeds from the line of credit will be used as a funding source for the \$12.25 per share (\$16,087 aggregate) cash consideration. The line of credit will carry a five-year term consist of \$6,000 floating rate at 90-day LIBOR plus 200 basis points and \$6,000 fixed rate at 3.76%. Quarterly payments of principal and interest will be required based on a 10-year amortization. The impact of the adjustment was to increase interest expense on borrowings by \$363 and \$182 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.

- (l) *Purchase Accounting Adjustments*-Common stock, surplus and retained earnings were adjusted to reverse SHB's historical shareholders' equity balances and to reflect the stock consideration to be issued estimated at \$16,995. See also Note 2, *Pro Forma Allocation of Purchase Price*, for the allocation of the purchase price to net assets acquired. The adjustment has no impact on the Pro Forma Combined Condensed Consolidated Income Statements.
- (m) *Purchase Accounting Adjustments*-Adjustment to reflect issuance of \$2,000 of non-cumulative perpetual preferred stock by First Citizens Properties, Inc., the real estate investment trust subsidiary of First Citizens. This issuance of stock is expected to be completed by the closing of the transaction, subject to regulatory approval, through a private placement offering. Proceeds from the offering will be used as funding source for the cash consideration of \$12.25 per share (\$16,087 aggregate). The impact of the adjustment was to increase non-interest expense for the minority interest dividend payments by \$120 and \$60 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.
- (n) *Purchase Accounting Adjustments*- Accumulated other comprehensive income was adjusted to reverse SHB's historical accumulated other comprehensive income balance. The net discount of \$486 recorded to reflect the excess of the par value over the fair value of the acquired investment securities will be recognized over the estimated remaining life of the portfolio. The impact of the adjustment was to increase interest income on securities by \$169 and \$84 for the year ended December 31, 2013 and six months ended June 30, 2014, respectively.
- (o) *Purchase Accounting Adjustments*-Weighted average basic shares outstanding were adjusted to reverse SHB's basic shares outstanding and to record shares of First Citizens stock issued to effect the transaction.

- (p) *Pro Forma Adjustments*-Cash was adjusted to reflect expensing of approximately \$1,000 of anticipated non-recurring merger related expenses to be incurred by First Citizens and SHB prior to and at closing. The related tax effect of approximately \$340 is reflected as a decrease to Other Liabilities for the reduction of current and deferred tax liabilities and the expense net of tax of approximately \$660 is reflected as a decrease to retained earnings. Anticipated non-recurring merger related expenses consist of investment banking fees, legal fees, accounting fees, registration fees, contract termination fees, printing costs, etc. These expenses are not included in the Pro Forma Combined Condensed Consolidated Income Statements because they are not expected to have a continuing impact on the combined entity. Payment of these expenses is not expected to have a significant impact on the liquidity of the combined entity.
- (q) *Pro Forma Adjustments*-Income taxes were adjusted to reflect the tax effects of the purchase accounting adjustments using First Citizens' statutory rate of 34%.

Note 4 Preliminary Unaudited Pro Forma Regulatory and Tangible Capital Ratios

The following information reflects the unaudited pro forma balances used for calculating pro forma regulatory and tangible capital ratios as of June 30, 2014 for First Citizens, First Citizens National Bank and Southern Heritage Bank and gives effect to the merger as if it occurred on that date.

First Citizens Bancshares, Inc.

	June 30, 2014			Pro Forma
	(as reported) (1)	Adjustments		
Total equity (before minority interests)	\$119,950	\$16,995	(2)	\$ 136,945
Less:				
Net unrealized gain on available-for-sale debt securities	3,631			3,631
Disallowed goodwill & intangibles	14,013	10,958	(3)	24,971
Add qualifying restricted core capital elements:				
Trust preferred debt	10,310	3,605	(4)	13,915
Noncontrolling minority interests	2,000	2,000	(5)	4,000
Tier 1 capital (total tangible equity capital)	114,616	11,642		126,258
Reserve for loan losses	7,807			7,807
Unrealized gains on available-for-sale equity securities	19			19
Tier 2 capital	7,826			7,826
Total qualified capital	122,442	11,642		134,084
Risk weighted assets	683,550	152,737	(6)	836,287
Total average assets	1,186,149	247,545	(7)	1,433,694
Less: disallowed goodwill and intangibles	14,013	10,958	(3)	24,971
Average assets for regulatory leverage capital	1,172,136	236,587		1,408,723
Total assets	1,199,609	245,036	(8)	1,444,645
Total tangible assets	1,185,596	234,078	(9)	1,419,674
Tier 1 leverage ratio (10)	9.78%			8.96%
Tier 1 risk based capital ratio (11)	16.77%			15.10%
Total risk based capital ratio (12)	17.91%			16.03%
Total tangible equity capital to total tangible assets	9.67%			8.89%

(1) Balances as of June 30, 2014 as reported on First Citizens FRY-9C filed with the Federal Reserve.

(2) Adjustment to reflect stock consideration to effect the transaction. See also Note 2, Pro Forma Allocation of Purchase Price.

(3) Adjustment to reflect preliminary estimate of goodwill and intangibles net of the deferred tax liability. See also Note 2, Pro Forma Allocation of Purchase Price.

(4) Adjustment to reflect assumption of SHB's subordinated debentures net of estimated fair value adjustment. See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments (k).

(5)

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Adjustment to reflect issuance of non-cumulative perpetual preferred stock by First Citizens Properties, Inc., the real estate investment trust subsidiary of First Citizens. See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments (m).

- (6) Adjustment to reflect the risk weighted assets as reported by Southern Heritage Bank on the June 30, 2014 Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only FFIEC 041 (Call Report) filed with the Federal Financial Institutions Examination Council on July 28, 2014 adjusted for the redemption of the SBLF shares and applicable fair value adjustments. Adjustments consist of the following:

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Southern Heritage Bank's risk weight assets as reported on the June 30, 2014 Call Report	\$161,673
Decrease for cash to redeem the SBLF prior to closing	(5,105)
Decrease for fair value adjustment on loans	(5,131)
Increase for fair value adjustment of premises and equipment	1,300
	\$152,737

See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments for additional information regarding fair value adjustments.

(7) Adjustments to total average assets include the following:

Southern Heritage Bank's total average assets as reported on June 30, 2014 Call Report	\$246,056
Decrease for cash to redeem SBLF prior to closing	(5,105)
Decrease for net cash considerations	(2,087)
Decrease of estimated transaction expenses	(1,000)
Decrease for fair value adjustment on loans	(5,131)
Increase for reversal of Southern Heritage Bank's allowance for loan losses	2,023
Increase for preliminary estimates of goodwill	9,928
Increase for preliminary estimate of core deposit intangible	1,561
Increase for fair value adjustment of premises and equipment	1,300
Total adjustment to total average assets	\$247,545

(8) Adjustments to total assets consist of the following:

SHB's total assets as reported (unaudited) as of June 30, 2014	\$243,547
Decrease for cash to redeem the SBLF prior to closing	(5,105)
Sum of purchase accounting adjustments	7,594
Sum of pro forma adjustments	(1,000)
	\$245,036

See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments for additional information.

(9) Adjustment to tangible assets consists of the adjustments totaling \$245,036 in (8) above less goodwill and intangibles totaling \$10,958.

(10) Tier 1 leverage ratio is calculated as Tier 1 capital (total tangible equity capital) to average assets for regulatory leverage capital.

(11) Tier 1 risk based capital ratio is calculated as Tier 1 capital (total tangible equity capital) to risk weighted assets.

(12) Total risk based capital ratio is calculated as total qualified capital to risk weighted assets.

First Citizens National Bank

	June 30, 2014			
	<u>(as reported)</u> (1)	<u>Adjustments</u>		<u>Pro Forma</u>
Total equity (before minority interests)	\$ 129,197	\$(5,000)	(2)	\$124,197
Less:				
Net unrealized gain (loss) on available-for-sale debt securities	3,631			3,631
Disallowed goodwill & intangibles	14,013			14,013
Add qualifying restricted core capital elements:				

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Noncontrolling minority interests	2,000	2,000	(3)	4,000
Tier 1 capital (total tangible equity capital)	113,553	(3,000)		110,553
Reserve for loan losses	7,807			7,807
Unrealized gains (losses) on available-for-sale equity securities	19			19
Tier 2 capital	7,826			7,826
Total qualified capital	121,379	(3,000)	(4)	118,379
Risk weighted assets	683,771	(3,000)	(4)	680,771
Total average assets	1,186,489	(3,000)	(4)	1,183,489
Less: disallowed goodwill and intangibles	14,013			14,013
Average assets for regulatory leverage capital	1,172,476	(3,000)		1,169,476
Total assets	1,186,489	(3,000)	(4)	1,183,489
Total tangible assets	1,172,476	(3,000)	(4)	1,169,476
Tier 1 leverage ratio ⁽⁵⁾	9.68%			9.45%
Tier 1 risk based capital ratio ⁽⁶⁾	16.61%			16.24%
Total risk based capital ratio ⁽⁷⁾	17.75%			17.39%
Total tangible equity capital to total tangible assets	9.68%			9.45%

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- (1) Balances as of June 30, 2014 as reported on First Citizens National Bank's Call Report filed with the FFIEC on July 30, 2014.
- (2) Adjustment to reflect cash dividends from First Citizens National Bank to First Citizens to be used as funding source for cash consideration to effect the transaction.
- (3) Adjustment to reflect issuance of non-cumulative perpetual preferred stock by First Citizens Properties, Inc., the real estate investment trust subsidiary of First Citizens. See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments (m).
- (4) Adjustments to risk weighted assets, total average assets, total assets and total tangible assets reflect the net decrease in assets as a result of \$5,000 dividend to First Citizens as noted in (2) above net of proceeds of \$2,000 from issuance of non-cumulative perpetual preferred stock as described in (3) above.
- (5) Tier 1 leverage ratio is calculated as Tier 1 capital (total tangible equity capital) to average assets for regulatory leverage capital.
- (6) Tier 1 risk based capital ratio is calculated as Tier 1 capital (total tangible equity capital) to risk weighted assets.
- (7) Total risk based capital ratio is calculated as total qualified capital to risk weighted assets.

Southern Heritage Bank

	June 30, 2014			
	<u>(as reported)</u> (1)	<u>Adjustments</u>		<u>Pro Forma</u>
Total equity	\$32,538	\$ 4,361	(2)	\$36,899
Less:				
Net unrealized (loss) gain on available-for-sale debt securities	(486)	486	(3)	-
Disallowed goodwill & intangibles	-	10,958	(4)	10,958
Tier 1 capital (total tangible equity capital)	33,024	(7,083)		25,941
Reserve for loan losses	2,021	(2,021)	(5)	-
Tier 2 capital	2,021	(2,021)		-
Total qualified capital	35,045	(9,104)		25,941
Risk weighted assets	161,673	(\$8,936)	(6)	152,737
Total average assets	246,056	4,576	(7)	250,632
Less: disallowed goodwill and intangibles	-	10,958	(4)	10,958
Average assets for regulatory leverage capital	246,056	(6,382)		239,674
Total assets	243,248	4,576	(7)	247,824
Total tangible assets	243,248	(6,382)	(8)	236,866
Tier 1 leverage ratio (9)	13.42%			10.80%
Tier 1 risk based capital ratio (10)	20.43%			16.98%
Total risk based capital ratio (11)	21.68%			16.98%
Total tangible equity capital to total tangible assets	13.58%			10.93%

- (1) Balances as of June 30, 2014 as reported on Southern Heritage Bank's June 30, 2014 Call Report.
- (2) Adjustments to total equity consist of the following:

Decrease for SHB's historical equity	\$(32,538)
Increase for total purchase price	33,082
Increase for assumed subordinated debentures, net of fair value and related deferred tax adjustments	4,132
Decrease for net assets of SHB as of June 30, 2014	(315)
Total net adjustments	\$ 4,361

See also Note 2, Pro Forma Allocation of Purchase Price and Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments.

- (3) Adjustment to reflect reversal of Southern Heritage Bank's historical accumulated other comprehensive income balance.
- (4) Adjustment to reflect preliminary estimate of goodwill and intangibles. See also Note 2, Pro Forma Allocation of Purchase Price.
- (5) Adjustment to reflect the reversal of Southern Heritage Bank's recorded allowance for loan losses. See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments.

(6) Adjustments to risk weighted assets as reported by Southern Heritage Bank on the June 30, 2014 Call Report consist of the following:

Decrease for cash to redeem the SBLF prior to closing	\$(5,105)
Decrease for fair value adjustment on loans	(5,131)
Increase for fair value adjustment of premises and equipment	1,300
Total net adjustments	\$ (8,936)

See also Note 3, Preliminary Unaudited Pro Forma and Acquisition Accounting Adjustments for additional information regarding fair value adjustments.

(7) Adjustments to average and total assets as reported by Southern Heritage Bank on the June 30, 2014 Call Report consist of the following:

Decrease for cash to redeem SBLF prior to closing	\$(5,105)
Decrease for fair value adjustment on loans	(5,131)
Increase for reversal of Southern Heritage Bank's allowance for loan losses	2,023
Increase for preliminary estimate of goodwill	9,928
Increase for preliminary estimate of core deposit intangible	1,561
Increase for fair value adjustment of premises and equipment	1,300
Total net adjustments	\$4,576

Note 5 Historical and Pro Forma Cash Dividends Per Share

The following information reflects cash dividends per share on a historical and pro forma basis for the six months ended June 30, 2014 and year ended December 31, 2013:

	Six Months Ended June 30, 2014	Year Ended December 31, 2013
First Citizens Historical	\$0.50	\$1.30
SHB Historical	0.42	0.41
Pro Forma Combined	0.50	1.30
Per Equivalent SHB Share*	0.14	0.37

*Per Equivalent SHB Share is calculated as the pro forma combined multiplied by the exchange rate of 0.2876 set forth in the Merger Agreement.

UNAUDITED COMPARATIVE PER SHARE DATA

The following information presented below should be read together with: (i) First Citizens' audited consolidated financial statements and accompanying notes for the year ended December 31, 2013, and unaudited consolidated financial statements and accompanying notes for the six months ended June 30, 2014, both of which are included elsewhere in this Proxy Statement/Prospectus; and (ii) SHB's audited consolidated financial statements and accompanying notes for the year ended December 31, 2013, and SHB's unaudited consolidated financial statements and accompanying notes for the six months ended June 30, 2014, also included elsewhere in this Proxy Statement/Prospectus. See Index to Financial Statements.

The unaudited pro forma adjustments are based upon available information and certain assumptions that First Citizens' management believes are reasonable. The unaudited pro forma data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of factors that may result as a consequence of the merger or consider any potential impacts of current market conditions of the merger on revenues, expense efficiencies, asset dispositions, among other factors. As a result, unaudited pro forma data is presented for illustrative purposes only and does not represent an attempt to predict or suggest future results. Upon completion of the merger, the operating results of Southern Heritage Bank will be reflected in the consolidated financial statements of First Citizens on a prospective basis.

	First Citizens Stock⁽¹⁾	Equivalent Pro Forma Value Per Share of SHB Stock⁽²⁾
June 30, 2014	\$ 33.82	\$ 21.98
July 31, 2014	\$ 34.24	\$ 22.10

(1) Represents the book value (per Selected Financial Data) per share of First Citizens stock as of June 30, 2014 (unaudited).

(2) Represents the book value per share of First Citizens stock multiplied by the assumed exchange ratio of 0.2876 and adding the per share cash consideration of \$12.25, which does not reflect any adjustments.

The value does not reflect cash to be paid in lieu of fractional shares and is rounded to two decimals.

The table shows: (1) the value assigned to First Citizens' common stock on June 30, 2014 and on July 31, 2014, the most recent date practicable preceding the date of this Proxy Statement/Prospectus; and (2) the equivalent proforma value of a share of SHB common stock at such dates based on the value of the consideration to be received by SHB shareholders in the merger with respect to each share.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This Proxy Statement/Prospectus contains certain forward-looking statements about the financial condition, results of operations and business of First Citizens and SHB and about the combined companies following the merger. These statements concern the cost savings, revenue enhancements and other advantages the companies expect to obtain from the merger, the anticipated impact of the merger on First Citizens financial performance, tax consequences and accounting treatment of the merger, receipt of regulatory approvals and earnings estimates for the combined company. These statements appear in several sections of this Proxy Statement/Prospectus, including SUMMARY, RISK FACTORS, THE MERGER Reasons for the Merger, INFORMATION ABOUT FIRST CITIZENS Management's Discussion and Analysis of Financial Condition and Results of Operations and INFORMATION ABOUT SHB Management's Discussion and Analysis of Financial Condition and Results of Operations. Also, the forward-looking statements generally include any of the words believes, expects, anticipates, intends, estimate, should, will, may or plans or similar expressions.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The future results and shareholder values of First Citizens and SHB, and of the combined companies, may differ materially from those expressed in these forward-looking statements. Many of the factors that could influence or determine actual results are unpredictable and not within the control of First Citizens or SHB. In addition, neither First Citizens nor SHB intends to, nor are they obligated to, update these forward-looking statements after this Proxy Statement/Prospectus is distributed, even if new information, future events or other circumstances have made them incorrect or misleading as of any future date. For all of these statements, First Citizens claims the protection of the safe harbor for forward-looking statements provided in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act.

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities:

- First Citizens and SHB may fail to achieve the anticipated benefits of the merger;
- The value of First Citizens stock after the merger may be affected by factors different from those affecting shares of SHB or First Citizens currently;
- The executive officers and directors of SHB have interests different from typical SHB shareholders;
- Former shareholders of SHB will be limited in their ability to influence First Citizens' actions and decisions following the merger;
- The merger may result in a loss of current SHB employees;
- Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met;
- The Merger Agreement limits SHB's ability to pursue an alternative transaction and requires SHB to pay a termination fee under certain circumstances relating to alternative acquisition proposals;
- First Citizens' actual cost savings resulting from the merger with SHB may be less than expected, First Citizens may be unable to realize those cost savings as soon as expected or First Citizens may incur additional or unexpected costs;
- Changes in general economic and business conditions;
- Changes in market rates and prices of securities, loans, deposits and other financial instruments;
- Changes in legislative or regulatory developments affecting financial institutions in general, including changes in tax, banking, insurance, securities or other financial service related laws;
- Changes in government fiscal and monetary policies;
- The ability of First Citizens to provide market competitive products and services;
- Concentrations within the loan portfolio;
- Fluctuations in prevailing interest rates and the effectiveness of the First Citizens' interest rate hedging strategies;
- First Citizens' ability to maintain credit quality;
- The effectiveness of First Citizens' risk monitoring systems;
- The ability of First Citizens' borrowers to repay loans;

- The availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity;
- Geographic concentration of First Citizens' assets and susceptibility to economic downturns in that area;
- The ability of First Citizens to attract, train and retain qualified personnel;
- Changes in consumer preferences; and
- Other factors generally understood to affect financial results of financial services companies.

THE ANNUAL MEETING

General

This Proxy Statement/Prospectus is first being mailed on or about [], 2014, to all persons who were SHB shareholders on August 21, 2014.

Along with this Proxy Statement/Prospectus, SHB shareholders are being provided with a Notice of Annual meeting and form of proxy card for use at the annual meeting of SHB shareholders and at any adjournments or postponements of that meeting.

At the SHB annual meeting, the following proposals will be considered and voted upon:

1. *Merger Proposal.* Considering and voting upon the approval of the agreement and plan of merger, as amended (the *Merger Agreement*), dated as of March 20, 2014, between SHB and First Citizens, which provides for the merger of SHB with and into First Citizens as more fully described in the accompanying Proxy Statement/Prospectus, and the transactions contemplated by the Merger Agreement;
2. *Election of Directors.* To elect two Class III members of the board of directors to serve three-year terms until the annual meeting of shareholders in 2017 or until their successors have been duly elected and qualified. Note that upon the effective date of the merger, if approved and then consummated, the directors of SHB will no longer serve as directors of SHB, but since the same directors generally are elected as the directors of Southern Heritage Bank, they will continue to serve in that capacity;
3. *Adjournment.* If necessary, to adjourn the annual meeting to a later date; and
4. *Other Business.* To transact such other business as may properly come before the annual meeting or any adjournment of the annual meeting.

All holders of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock shall have the right to vote on the merger; however, only holders of SHB common stock have the right to vote with respect to the other proposals to be submitted at the annual meeting of SHB shareholders.

The annual meeting of SHB shareholders will be held at the following time and place:

September 25, 2014

5:00 PM (Eastern Time)

3020 Keith Street NW

Cleveland, Tennessee 37312

Proxies

We encourage SHB shareholders to promptly vote their proxies using the Internet by visiting the following website: www.voteproxy.com or by completing, signing, dating and returning the enclosed proxy card, solicited by SHB's board of directors, whether or not they are able to attend the SHB annual meeting in person.

A SHB shareholder may revoke any proxy given in connection with this solicitation by:

- delivering to SHB a written notice revoking the proxy prior to the taking of the vote at the SHB annual meeting;
- delivering a duly executed proxy relating to the same shares bearing a later date;
- re-vote by using the Internet and visiting the following website: www.voteproxy.com; or

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- attending the meeting and voting in person (attendance at the SHB annual meeting without voting at the meeting will not in and of itself constitute a revocation of a proxy).

Revocation of proxy by written notice or execution of a new proxy bearing a later date should be submitted to:

Southern Heritage Bancshares, Inc.

3020 Keith Street NW

Cleveland, Tennessee 37312

Attention: Corporate Secretary

For a notice of revocation or later proxy to be valid, however, SHB must receive it prior to the vote of SHB shareholders at the SHB annual meeting. SHB will vote all shares of SHB common stock represented by valid proxies received through this solicitation and not revoked before they are exercised in the manner described above.

SHB is currently unaware of any other matters that may be presented for action at the SHB annual meeting. If other matters do properly come before the SHB annual meeting, then shares of SHB common stock represented by proxies will be voted (or not voted) by the persons named in the proxies in their discretion.

Please do not forward your SHB stock certificates with your proxy card.

Solicitation of Proxies

SHB will bear the costs of printing and mailing this Proxy Statement/Prospectus and First Citizens will bear the costs of filing First Citizens registration statement on Form S-4 with the SEC.

If necessary, SHB may use certain of its employees, who will not be specially compensated, to solicit proxies from SHB shareholders, either personally or by telephone, facsimile or mail.

Record Date and Voting Rights On the Merger

SHB's board of directors has fixed August 21, 2014 as the record date for the determination of SHB shareholders entitled to receive notice of and to vote at SHB's annual meeting of shareholders. Accordingly, only SHB shareholders of record and entitled to vote at the close of business on August 21, 2014 will be entitled to notice of and to vote at the SHB annual meeting. At the close of business on SHB's record date, there were 936,375 shares of SHB common stock, 151,949 shares of SHB Class A common stock, 193,176 shares of SHB Class B common stock and 31,635 shares of SHB Series A preferred stock entitled to vote at the SHB annual meeting held by approximately 847 holders of record, and the executive officers and directors of SHB beneficially owned an aggregate of 18.9% of the outstanding shares of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock.

The presence, in person or by proxy, of a majority of the votes entitled to be cast by the holders of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock is necessary to constitute a quorum at the annual meeting. Each share of SHB common stock, SHB Class A common stock, SHB Class B common stock and SHB Series A preferred stock outstanding on SHB's record date entitles its holder to one vote as to the approval of the Merger Agreement or any other proposal that may properly come before SHB's annual meeting. Holders of those shares will be considered as separate voting groups and will be entitled to vote and be counted as separate voting groups for each class of stock.

For purposes of determining the presence or absence of a quorum for the transaction of business, SHB will count shares of SHB stock entitled to vote present in person or by proxy at the annual meeting but not voting as present at the annual meeting. Abstentions and broker non-votes will also be counted as present at the SHB annual meeting for purposes of determining whether a quorum exists.

Under Tennessee law, the Merger Agreement must be approved by a majority of all the votes entitled to be cast on the Merger Agreement. Therefore, the holders of a majority of the outstanding shares of SHB stock entitled to vote, present in person or by proxy at the annual meeting must approve the Merger Agreement. Accordingly, SHB's board of directors urges SHB shareholders to complete, date and sign the accompanying proxy card and return it promptly in the enclosed postage paid business reply envelope.

Vote Required on Other Matters

Only holders of SHB common stock are entitled to vote on matters other than the merger at the annual meeting. You are entitled to vote your common stock if our records show that you held your shares as of the close of business on August 21, 2014, the record date. Holders of shares of our Class A common stock, Class B common stock and SHB Series A preferred stock are not entitled to vote on these other matters being presented at the annual meeting.

Each shareholder is entitled to one vote for each share of common stock held on the record date. On that date, there were 936,375 shares of common stock outstanding and entitled to vote. Shareholders are not entitled to cumulative voting rights.

For the election of directors, you may vote for (1) all of the nominees, (2) none of the nominees, or (3) all of the nominees except those you designate. For other matters or adjournment, you may vote FOR or AGAINST or you may ABSTAIN from voting.

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If you return your signed proxy card but do not specify how you want to vote your shares, we will vote them **FOR** the election of the nominees for directors, and **FOR** the adjournment, if necessary, of the annual meeting to a later date.

If a quorum is present at the annual meeting, the director nominees will be elected by a plurality of the votes cast in person or by proxy at the meeting, and any other matters submitted to the shareholders will require the affirmative vote of a majority of the shares of common stock present or represented by proxy at the meeting.

Recommendation of Board of Directors

SHB's board of directors has approved the Merger Agreement. SHB's board of directors believes that the merger is in the best interests of SHB and SHB shareholders and recommends that SHB shareholders vote **FOR** approval of the Merger Agreement. The determination of SHB's board of directors with respect to the merger is based on a number of factors, as described in this Proxy Statement/Prospectus. See **THE MERGER** Reasons for the Merger; Recommendation of the Board of Directors. SHB's board of directors also believes that the election of the nominees for election as directors are in the best interests of SHB and SHB shareholders and recommends that SHB shareholders vote **FOR** all nominees for election as directors.

Dissenters Rights

Tennessee law permits SHB shareholders to dissent from the merger and to receive the fair value of their shares of SHB stock in cash. To dissent, a SHB shareholder is subject to a number of restrictions and technical requirements, including filing certain notices with SHB and voting his or her shares against the Merger Agreement. The shares of SHB stock held by a dissenter will not be exchanged for stock consideration or cash consideration in the merger and a dissenter's only right will be to receive the fair value of his or her shares of SHB stock in cash.

Any SHB shareholder who wishes to exercise dissenters' rights, or who wishes to preserve his or her right to do so, should carefully review Chapter 23 of the Tennessee Business Corporation Act, a copy of which is attached as Annex B to this Proxy Statement/Prospectus, and the section entitled "THE MERGER - Dissenters' Rights."

Certain Matters Relating to Proxy Materials

The rules regarding delivery of proxy statements may be satisfied by delivering a single proxy statement to an address shared by two or more shareholders. This method of delivery is referred to as "householding" and can result in meaningful cost savings. In order to take advantage of this opportunity, we may deliver only one proxy statement to certain multiple SHB shareholders who share an address, unless we have received contrary instructions from one or more of the shareholders. We undertake to deliver promptly upon request a separate copy of the proxy statement, as requested, to a shareholder at a shared address to which a single copy of these documents is delivered. If you hold SHB stock as a record holder and prefer to receive a separate copy of a proxy statement, please call (423) 473-7980 or send a written request to:

Southern Heritage Bancshares, Inc.

3020 Keith Street NW

Cleveland, Tennessee 37312

Attention: Corporate Secretary

If your SHB stock is held through a broker or bank and you prefer to receive a separate copy of a proxy statement, please contact such broker or bank.

PROPOSAL 1: THE MERGER

The discussion in this Proxy Statement/Prospectus of the merger of SHB into First Citizens does not purport to be complete and is qualified by reference to the full text of the Merger Agreement and the other annexes attached to, and incorporated by reference into, this Proxy Statement/Prospectus.

Introduction

During a special meeting on July 16, 2014, First Citizens' shareholders voted on and approved the First Citizens Charter Amendment authorizing an additional class of common stock (Class A common stock) and a reclassification of First Citizens' outstanding common stock. Upon the filing of the First Citizens Charter Amendment, each share of First Citizens common stock outstanding immediately prior to such filing owned by a shareholder of record who owned between one and 299 shares of such common stock was, by virtue of the filing of the First Citizens Charter Amendment and without any action on the part of the holders, reclassified as Class A common stock, on the basis of one share of Class A common stock per each share of common stock so reclassified. Each share of First Citizens common stock outstanding immediately prior to the filing of the First Citizens Charter Amendment owned by a shareholder of record who owned 300 or more shares of such common stock was not reclassified and continued to be classified as common stock. The First Citizens common stock continues to have unlimited voting rights. The First Citizens Class A common stock has no voting rights, except as may be required by law.

Description of the Merger

At the effective time, SHB will merge with and into First Citizens, with First Citizens being the surviving corporation following the merger. Southern Heritage Bank will survive and become a wholly-owned subsidiary of First Citizens. SHB shareholders, other than SHB shareholders who properly exercise their right to dissent from the merger, will be entitled to receive the per share merger consideration in exchange for each share of SHB stock they own.

First Citizens will not issue any fractional shares of First Citizens stock. Instead, an SHB shareholder who would otherwise be entitled to receive a fractional share of First Citizens stock as consideration in the merger will receive cash in an amount equal to \$42.60 multiplied by the fraction of a share of First Citizens stock to which the shareholder otherwise would be entitled.

Tennessee law permits SHB shareholders to dissent from the merger and to receive the fair value of their shares of SHB stock in cash. To dissent, an SHB shareholder is subject to a number of restrictions and technical requirements, including filing certain notices with SHB and voting his or her shares against the Merger Agreement. The shares of SHB stock held by a dissenter will not be exchanged for stock consideration or cash consideration in the merger and a dissenter's only right will be to receive the fair value of his or her shares of SHB stock in cash. For a discussion of the procedures that dissenting shareholders must follow to properly exercise their rights, please see **THE MERGER Dissenters' Rights**.

Background of the Merger

From time to time in recent years, SHB has considered the strategic options available to it as an independent bank, as an acquirer and consolidator in the Tennessee market, or as a party to a merger with another institution. The steady growth trajectory of SHB since its inception in 1999, however, resulted in the principal executives and the board of directors of SHB electing to continue an organic growth pattern while at the same time continuing to evaluate its strategic alternatives to maximize shareholder value.

Over the past number of years, however, the principal executives and the board of directors began to consider ways to give SHB better size and scale to pursue growth and shareholder value. The health of SHB and its core markets, the current interest rate environment and continued competitive pressures and rising regulatory costs led SHB's leadership to consider a merger as one avenue to achieve that goal. SHB engaged FIG Partners on March 27, 2013 to act as the exclusive agent to provide investment banking and financial advisory services, in connection with a possible merger with another financial institution. FIG Partners solicited interest in SHB from 29 financial institutions.

Since approximately 2011, Mr. J. Lee Stewart, president and chief executive officer of SHB, and Mr. Jeffrey D. Agee, president and chief executive officer of First Citizens, have had periodic conversations about strategic options regarding their two companies. In April 2012, Christopher Olsen, currently a principal of Olsen Palmer, a financial advisory firm, advised First Citizens to consider SHB as an acquisition target and conducted a financial analysis of such a transaction. On May 24, 2013, First Citizens engaged Olsen Palmer to act as its exclusive

agent to provide investment banking and financial advisory services in connection with the potential acquisition of SHB.

The first formal visit between Mr. Stewart and Mr. Agee took place in May 2011, in Washington, D.C. This meeting was followed by many others between Mr. Agee and Mr. Stewart as well as other key persons associated with First Citizens and SHB. At each of these meetings, the parties discussed the opportunities presented by a merger between them, the overall banking marketplace in Tennessee, the communities in which SHB does business, and various potential transaction structures.

In the spring of 2013, the discussions between the parties and their financial advisors turned toward structuring a formal offer from First Citizens to SHB regarding a proposed merger transaction. The offer was submitted to SHB in the form of an indication of interest first by letter dated May 2, 2013 followed by a letter dated June 14, 2013. The June 14, 2013 letter was not executed by SHB. A formal letter dated December 3, 2013 (herein, the Letter of Intent) was executed by SHB on December 4, 2013. In the Letter of Intent, First Citizens offered to purchase SHB for an aggregate purchase price of \$32,171,807.50, to be paid in stock and cash, based on the market value of First Citizens capital stock at that time. Between the initial indication of interest in May and the December Letter of Intent, the consideration was changed from a range to a set amount (\$24.50 per share), the structure changed to provide for an adjustment based on a material decrease in SHB's accumulated other comprehensive income (AOCI), the minimum net worth requirement was added and defined, and certain operational issues were addressed.

After SHB reviewed the Letter of Intent and consulted with FIG Partners, SHB and FIG Partners determined that the offer received from First Citizens was clearly the highest and best offer received by SHB. The SHB board agreed that the offer was in the best interest of the shareholders and voted to enter into said Letter of Intent which provided First Citizens a period of exclusivity in which to conduct diligence on SHB and draft the definitive Merger Agreement.

The parties proceeded to perform due diligence on one another on an exclusive basis. On January 23, 2014, First Citizens provided SHB and its advisors with an initial draft of a definitive Merger Agreement. The parties discussed various legal and business points related to this agreement through March 19, 2014. During the due diligence period, First Citizens conducted a thorough due diligence investigation of SHB. This due diligence investigation included on-site review of documents, files and other pertinent materials, as well as in-person meetings and discussions with key SHB personnel. SHB and its advisors conducted a thorough due diligence investigation of First Citizens. This due diligence investigation included a review of historical public filings of First Citizens, on-site review of key documents and interviews with First Citizens management. Throughout the due diligence investigation period and negotiation of the Merger Agreement, the deal terms did not materially deviate from the terms set forth in the executed Letter of Intent. The cash and share consideration provided in the executed Letter of Intent remained the same.

Olsen Palmer presented a financial analysis with regard to a proposed merger with SHB to the executive committee of First Citizens board of directors on March 17, 2014. On March 19, 2014, the First Citizens board of directors met to consider the proposed merger between SHB and First Citizens and the terms of the proposed Merger Agreement. The First Citizens board of directors discussed the merger with its legal counsel and management. Olsen Palmer presented its fairness opinion to the board of directors at this meeting. After further discussion among the directors, the Merger Agreement was approved by First Citizens board of directors on March 19, 2014 and executed by First Citizens chief executive officer on March 20, 2014.

On March 19, 2014, SHB's board of directors held a meeting to discuss the transaction and the Merger Agreement. At that meeting, the SHB board of directors was briefed on the Merger Agreement and the ancillary legal documents and had the opportunity to ask questions to SHB's legal and financial advisors regarding terms and conditions of the transaction included in the Merger Agreement. FIG Partners also presented an analysis of the financial terms set forth in the Merger Agreement. At that time, the total deal value of the transaction was projected to be \$32,702,855.75 based on a First Citizens stock price of \$44.00. FIG Partners provided SHB's board of directors with its opinion that closing of the proposed transaction on those terms was fair from a financial perspective to the shareholders of SHB. FIG Partners also provided its written fairness opinion, a copy of which is attached as Annex C to this Proxy Statement/Prospectus, on March 19, 2014.

SHB's board of directors unanimously approved the Merger Agreement and transactions contemplated thereby with First Citizens on March 19, 2014. On March 20, 2014, SHB's chief executive officer executed the Merger Agreement. First Citizens and SHB publicly announced the proposed merger that day.

On June 27, 2014, First Citizens and SHB amended the Merger Agreement to correct a clerical error in the amount to be paid to SHB's shareholders for fractional shares. See Annex A to this Proxy Statement/Prospectus for a copy of the First Amendment to the Merger Agreement.

On August 14, 2014, First Citizens and SHB further amended the Merger Agreement to extend the date upon which the merger must be completed from September 30, 2014 to October 30, 2014, and to provide that the mailing of letters of transmittal and election forms to SHB shareholders by the exchange agent will occur on or immediately following the meeting date of SHB shareholders and that the elections form must be returned by SHB shareholders within fifteen days of such mailing date in order to be considered timely. See Annex A to this Proxy Statement/Prospectus for a copy of the Second Amendment to the Merger Agreement.

Reasons for the Merger; Recommendation of the Board of Directors

The merger will combine the strengths of First Citizens and SHB and their subsidiary banks. First Citizens has an established presence in West and Middle Tennessee with plans to significantly enhance its market share in those markets. Joining with First Citizens will provide SHB's customers opportunities offered by a large, resourceful, community-minded bank. First Citizens has been actively seeking other banking locations to expand its presence in Tennessee. The proposed merger with SHB accelerates First Citizens' opportunity to grow across Tennessee and brings to First Citizens' team a number of outstanding bankers. First Citizens currently operates 21 commercial banking, mortgage, and insurance locations in West and Middle Tennessee, with total assets of approximately \$1.18 billion. First Citizens' management views Bradley County as a logical growth area for its community style of banking.

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In reaching its determination to approve the Merger Agreement, SHB's board of directors consulted with SHB's management and legal and financial advisors and considered a number of factors, including a fairness opinion presented by FIG Partners. FIG Partners took into consideration the results of the limited auction process for the potential sale of SHB in which FIG Partners contacted a total of 29 financial institutions regarding their potential interest in an acquisition of SHB, and First Citizens' offer was the highest indication received.

The following is a discussion of information and factors considered by SHB's board of directors in reaching this determination. This discussion is not intended to be exhaustive, but includes the material factors considered by SHB's board of directors. In the course of its deliberations with respect to the merger, SHB's board of directors discussed the anticipated impact of the merger on SHB, SHB's shareholders and the communities that SHB serves.

The terms of the Merger Agreement, including the consideration to be paid to SHB's shareholders, were the result of arm's length negotiations between representatives of SHB and representatives of First Citizens. In arriving at its determination to approve the Merger Agreement, SHB's board of directors considered a number of factors, including the following:

- SHB's board's familiarity with SHB's consolidated business, operations, earnings, and financial conditions;
- SHB's board's review of possible affiliation partners other than First Citizens, the prospects of such other possible affiliation partners, the discussions between FIG Partners and such other possible affiliation partners and the likelihood of any such affiliation;
- SHB's board's review, based in part by the presentation by SHB's management and SHB's legal and financial advisors, of the proposal, including a review of the business, operations, earnings, and financial conditions of First Citizens, as well as the potential results from a sale to First Citizens, and also including the financial presentation of FIG Partners and the opinion of FIG Partners dated as of March 19, 2014, that, as of March 19, 2014, and subject to the assumptions, limitations and qualifications set forth in the opinion, the total aggregate merger consideration to be received from First Citizens, which consisted of no more than 377,658 shares of First Citizens stock and \$16,085,903.75 in cash, is fair, from a financial point of view, to the shareholders of SHB (see Opinion of FIG Partners, a copy of which is attached as Annex C to this Proxy Statement/Prospectus);
- SHB's board's review of alternatives to such a transaction (including the alternatives of remaining independent and growing organically, remaining independent for a period of time and then selling, and remaining independent and growing through future acquisitions);
- The recent business combinations involving financial institutions either announced or completed during the past few years in the United States, the State of Tennessee, and contiguous states, and the effect of such combinations on competitive conditions in SHB's market area;
- A comparison of the proposal from First Citizens to such recent business combinations involving other financial institutions;
- SHB's reliance on its management team in order to continue to profitably grow and a lack of true management succession;
- SHB's reliance on mortgage banking activities in producing a significant portion of its net income and the potential decline in these activities if interest rates increase significantly;
- Increasing regulatory and statutory burdens (including costs, time commitments, earnings opportunities) on SHB and its subsidiaries as a community banking organization in general and as a result of the particular status of SHB; and
- The opportunity for SHB shareholders to exchange their shares of SHB for shares of First Citizens in a tax free exchange and resulting in the ownership of a stock currently paying a higher dividend.

The reasons set out above for the merger are not intended to be exhaustive but include the material factors considered by the board of directors of SHB in approving the transaction and the Merger Agreement. In reaching its determination, the board of directors of SHB did not assign any relative or specific weight to different factors and individual directors may have given weight to different factors. Based on the reasons stated above, the board of directors of SHB believes that the merger is in the best interest of SHB and its shareholders and therefore the board of directors of SHB approved the Merger Agreement and the transactions contemplated thereby.

Based on a thorough evaluation of these factors, SHB's board of directors believes the merger is in the best interests of SHB and SHB's shareholders. SHB's board of directors recommends that SHB shareholders vote FOR approval of the Merger Agreement and the transactions contemplated thereby.

Opinion of Financial Advisor to SHB

FIG Partners was engaged by SHB to advise SHB's board of directors as to the fairness of the consideration, from a financial perspective, to be paid by First Citizens to the SHB shareholders as set forth in the Merger Agreement.

By letter dated March 27, 2013, SHB retained FIG Partners to act as its financial advisor in connection with a possible business combination with another financial institution. FIG Partners is a nationally recognized investment banking firm and, as part of its investment banking business, is continually engaged in the valuation of financial institutions in connection with mergers and acquisitions, private placements and valuations for other corporate purposes. As a specialist in securities of financial institutions, FIG Partners has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. Neither FIG Partners nor any of its affiliates has a material financial interest in SHB or First Citizens. FIG Partners was selected to advise SHB's board of directors based upon its familiarity with Southeastern financial institutions and knowledge of the banking industry as a whole.

FIG Partners performed certain analyses described herein and presented the range of values for SHB, resulting from such analyses, to the board of directors of SHB in connection with its advice as to the fairness of the consideration to be paid by First Citizens. In forming its opinion as to the fairness of the proposed consideration to be received by SHB's shareholders, FIG Partners also took into consideration the results of the limited auction process for the potential sale of SHB in which FIG Partners contacted a total of 29 financial institutions regarding their potential interest in an acquisition of SHB, and First Citizens' offer was the highest indication received.

FIG Partners acted as financial advisor to SHB in connection with the proposed merger and participated in certain of the negotiations leading to the Merger Agreement. At the March 19, 2014 meeting of the board of directors of SHB at which SHB's board of directors considered and approved the Merger Agreement, FIG Partners delivered to SHB's board of directors its written opinion that as of March 19, 2014, the merger consideration was fair to SHB's shareholders from a financial point of view. In requesting FIG Partners' advice and opinion, no limitations were imposed by SHB upon FIG Partners with respect to the investigations made or procedures followed by it in rendering its opinion. **The full text of the opinion of FIG Partners, dated March 19, 2014, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Annex C. SHB shareholders should read this opinion in its entirety. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.**

In arriving at its fairness opinion, FIG Partners reviewed certain publicly available business and financial information relating to SHB and First Citizens. FIG Partners considered certain financial and stock market data of SHB and First Citizens, compared that data with similar data for certain other publicly-held banks and bank holding companies and considered the financial terms of certain other comparable bank transactions that had recently been completed. FIG Partners also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant. In connection with its review, FIG Partners did not independently verify the foregoing information and relied on such information as being complete and accurate in all material respects. Financial forecasts prepared by FIG Partners were based on assumptions believed by FIG Partners to be reasonable and to reflect currently available information. FIG Partners did not make an independent evaluation or appraisal of the assets of SHB or First Citizens.

For purposes of its opinion and in connection with the review of the proposed merger, FIG Partners, among other things:

- Reviewed the Merger Agreement;
- Reviewed certain historical publicly available business and financial information concerning SHB and First Citizens including, among other things, quarterly and annual reports filed by the parties with the Federal Reserve, the FDIC or the Office of the Comptroller of the Currency as applicable;
- Reviewed certain internal financial statements and other financial and operating data concerning SHB and First Citizens;
- Analyzed certain financial estimates and budgeted information prepared by the management of SHB;
- Participated in discussions with members of the senior managements of SHB and First Citizens for the purpose of reviewing the future prospects of SHB and First Citizens, including financial estimates related to their respective businesses, earnings, assets, and liabilities and credit quality;
- Reviewed the terms of recent merger and acquisition transactions, to the extent publicly available, involving banks, thrifts and bank and thrift holding companies that FIG Partners considered and deemed relevant; and
- Performed such other analyses and considered such other factors as FIG Partners has deemed appropriate.

FIG Partners assumed and relied, without independent verification, upon the accuracy and completeness of all of the financial and other information that has been provided to them by SHB, and of the publicly available information that was reviewed. FIG Partners is not an expert in the evaluation of allowances for loan losses and did not independently verify such allowances, and has relied on and assumed that the aggregate allowances for loan losses set forth on the balance sheets of SHB and First Citizens at December 31, 2013 were adequate to cover such losses and complied fully with applicable law, regulatory policy and sound banking practice as of the date of such financial statements. FIG Partners was not retained to and did not conduct a physical inspection of any of the properties or facilities of SHB, did not make any independent evaluation or appraisal of the assets, liabilities or prospects of SHB, was not furnished with any such evaluation or appraisal, and did not review any individual credit files. FIG Partners' opinion is necessarily based on economic, market, and other conditions as in effect on, and the information made available to FIG Partners as of, the date of the opinion.

FIG Partners reviewed and tabulated statistical data regarding the loan portfolio, securities portfolio and other performance ratios and statistics of SHB. Financial projections were prepared and analyzed as well as other financial studies, analyses and investigations as deemed relevant for the purposes of this opinion. In review of the aforementioned information, FIG Partners took into account its assessment of general market and financial conditions, its experience in other similar transactions and its knowledge of the banking industry generally.

In connection with rendering the fairness opinion and preparing its written and oral presentation to SHB's board of directors, FIG Partners performed a variety of financial analyses, including those summarized herein. The summary does not purport to be a complete description of the analyses performed by FIG Partners in this regard. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and therefore, such an opinion is not readily susceptible to summary description. Accordingly, notwithstanding the separate factors summarized below, FIG Partners believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create an incomplete view of the evaluation process underlying its opinion. In performing its analyses, FIG Partners made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond SHB's or First Citizens' control. The analyses performed by FIG Partners are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the values of businesses do not purport to be appraisals or to reflect the process by which businesses actually may be sold.

In the proposed merger, SHB shareholders will receive in aggregate \$16,085,903.75 in cash and shares of First Citizens stock in the amounts as follows: 269,302 shares of First Citizens common stock and 108,356 shares of First Citizens Class A common stock, for all of the issued and outstanding stock of SHB. Based on a trading price of \$44.00 per share for First Citizens common stock, the proposed aggregate consideration to be received totals \$32,702,855.75, subject to downward adjustment, as further described in the Merger Agreement.

The aggregate merger consideration represents a multiple of SHB's December 31, 2013 stated and tangible common equity of 162.9%, a multiple of SHB's 2013 earnings of 12.00x and a multiple of adjusted earnings of 17.64x. In addition, the proposed consideration to be received by SHB's shareholders represents a 6.58% premium over SHB's December 31, 2013 tangible equity as a percentage of SHB's December 31, 2013 core deposits.

Contribution Analysis: FIG Partners prepared a contribution analysis demonstrating percentages of total assets, total loans, total deposits, and tangible common equity, and net income as of the most recently available period for SHB and for First Citizens to be contributed to the combined company on a pro forma basis. SHB shareholders will receive merger consideration of 50.8% stock and 49.2% cash. FIG Partners also calculated the estimated pro forma impact on earnings, book value and dividends for the SHB shareholders who elect to receive 100% First Citizens stock in the merger.

SHB
Contribution
To First Citizens

Total assets	16.8%
Total loans	18.9%
Total deposits	17.5%
Total tangible common equity	17.2%
LTM Net Income	16.5%
Pro form ownership	9.5%
Pro Forma Ownership if 100% stock	17.3%

For SHB Shareholders
Selecting 100% Stock

Accretion /
Amount (Dilution)

Pro forma SHB 2013 earnings per share	\$2.39	14.9%
Pro forma SHB core 2013 earnings per share	\$2.06	46.1%
Pro forma SHB book value	\$18.35	20.0%
Pro forma SHB tangible book value	\$14.51	(5.1%)
Pro forma SHB dividends	\$0.58	45.0%

Acquisition Comparison Analysis: In performing this analysis, FIG Partners reviewed three groups of comparable merger transactions. The purpose of the analysis was to obtain an evaluation range of SHB based on these comparable bank acquisition transactions. The first group included 371 bank transactions in the United States announced since January 1, 2011, for which transaction pricing information was available and 100% of equity was acquired (the National Comparable Group). Median multiples of book value, tangible book value, earnings, adjusted earnings, and the premium paid over the seller's tangible equity as a percentage of the acquired institution's core deposits implied by the National Comparable Group transactions were utilized in obtaining a range for the acquisition value of SHB. Given that a significant portion of SHB's net income is generated from gains on sale of mortgage loans, which are typically considered non-core and highly volatile, FIG Partners adjusted SHB's earnings by removing these gains in calculating price to adjusted earnings. In addition to reviewing the broad National Comparable Group bank transactions, FIG Partners also reviewed four subsets of the National Comparable Group, based on parameters that were deemed relevant to SHB. The first subset consisted of 224 bank transactions for which the target had less than \$300 million in total assets. The second subset consisted of 179 bank transactions for which the target bank had a ratio of less than 2.0% non-performing assets to total assets. The third subset consisted of 119 bank transactions for which the target bank presented a ratio of greater than 0.75% return on average assets for the latest twelve months. The final subset consisted of 85 bank transactions for which the target had total equity to total assets between 6.0% and 9.0%.

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The second group of comparable merger transactions included 77 bank transactions in the Southeast (Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia) announced since January 1, 2011, for which transaction pricing information was available and 100% of equity was acquired (the Southeast Comparable Group). The third group of comparable merger transactions included seven bank transactions in Tennessee announced since January 1, 2010, for which transaction pricing information was available and 100% of equity was acquired (the Tennessee Comparable Group).

The following tables demonstrate the median multiples of book value, tangible book value, earnings, adjusted earnings and premium paid over the seller's tangible equity as a percentage of the acquired institution's core deposits for the various Comparable Groups.

National

	P/B	P/TB	P/E	Adj. P/E (x)	Core Dep. Premium
	(%)	(%)	(x)		(%)
High	284.1	284.1	34.70	34.70	35.35
Low	12.8	13.0	0.70	0.70	(16.88)
Mean	116.2	121.2	18.80	18.80	2.97
Median	115.9	120.1	17.83	17.83	2.61
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	88.1%	84.5%	19.2%	46.6%	77.1%

Total Assets < \$300M

	P/B	P/TB	P/E	Adj. P/E (x)	Core Dep. Premium
	(%)	(%)	(x)		(%)
High	261.8	261.8	67.23	67.23	14.59
Low	13.8	13.8	6.35	6.35	(16.88)
Mean	112.3	114.1	24.84	24.84	1.84
Median	112.6	113.3	21.55	21.55	1.86
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	94.0%	93.5%	16.9%	33.2%	86.0%

Nonperforming Assets

	P/B	P/TB	P/E	Adj. P/E	Core Dep. Premium
	(%)	(%)	(x)	(x)	(%)
High	284.1	284.1	34.70	34.70	22.23
Low	44.7	44.7	2.64	2.64	(11.88)
Mean	133.6	140.1	18.73	18.73	5.02
Median	127.7	132.8	17.73	17.73	4.42
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	82.5%	77.9%	20.1%	46.3%	65.1%

Return On Average Assets

	P/B	P/TB	P/E	Adj. P/E	Core Dep. Premium
	(%)	(%)	(x)	(x)	(%)
High	284.1	284.1	33.98	33.98	35.35
Low	29.0	29.2	1.57	1.57	(7.84)
Mean	140.8	147.8	16.02	16.02	6.24
Median	133.6	141.4	16.39	16.39	5.99
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	75.8%	69.7%	24.7%	61.7%	54.6%

Total Equity/Total Assets

	P/B	P/TB	P/E	Adj. P/E	Core Dep. Premium
	(%)	(%)	(x)	(x)	(%)
High	261.8	261.8	33.00	33.00	14.70
Low	19.6	19.6	7.47	7.47	(10.37)
Mean	122.2	125.4	18.41	18.41	2.87
Median	123.2	124.8	17.74	17.74	2.48
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	84.2%	79.5%	22.1%	47.5%	77.1%

Southeast

	P/B	P/TB	P/E	Adj. P/E	Core Dep. Premium
	(%)	(%)	(x)	(x)	(%)
High	196.4	196.4	33.02	33.02	13.78
Low	13.8	13.8	1.39	1.39	(10.37)
Mean	98.8	103.5	17.61	17.61	0.93
Median	99.0	100.7	16.54	16.54	0.12
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	96.3%	94.7%	13.5%	54.8%	93.0%

Tennessee

	P/B	P/TB	P/E	Adj. P/E	Core Dep. Premium
	(%)	(%)	(x)	(x)	(%)
High	121.3	124.5	28.57	28.57	1.97
Low	63.7	63.7	16.54	16.54	(3.26)
Mean	89.2	89.9	22.56	22.56	(1.08)
Median	86.7	86.7	22.56	22.56	(2.01)
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	100.0%	100.0%	NM	9.1%	100.0%

National Most Comparable

	P/B	P/TB	P/E	Adj. P/E	Core Dep. Premium
	(%)	(%)	(x)	(x)	(%)
High	185.4	185.4	18.59	18.59	9.23
Low	128.5	128.5	9.84	9.84	3.75
Mean	153.6	155.6	15.17	15.17	6.08
Median	158.6	158.6	16.81	16.81	6.54
FIZN Transaction	162.9	162.9	12.00	17.64	6.58
Percent Rank	77.3%	77.3%	23.4%	62.6%	53.9%

Discounted Cash Flow Analysis: A discounted cash flow analysis was performed by FIG Partners pursuant to which a range of values of SHB was determined by adding (i) the present value of estimated future dividend streams that SHB could generate over a five-year period and (ii) the present value of the terminal value of SHB's earnings and book value at the end of the fifth year. The terminal value of SHB's earnings and book value at the end of the five-year period was determined by applying a multiple of 10 times the projected terminal year's earnings and 150% of its fifth year ending tangible book value.

Dividend streams and terminal values were discounted to present values using a discount rate of 14%. This rate reflects assumptions regarding the required rate of return of holders or buyers of SHB's common stock. The aggregate value of SHB, determined utilizing a terminal price to earnings multiple of 10 and adding the present value of the total cash flows, was \$25,666,000, or \$19.55 per SHB common share. In addition, utilizing a terminal value based on a multiple of 150% of SHB's year five ending equity resulted in an aggregate value of \$26,880,000 or \$20.47 per SHB common share.

Adjusted Net Asset Value Analysis: FIG Partners reviewed SHB's balance sheet data to determine the amount of material adjustments required to the shareholders' equity of the SHB based on differences between the market value of SHB's assets and their value reflected on SHB's financial statements. FIG Partners determined that two adjustments were warranted. FIG Partners added a value of \$7,557,000 to reflect an additional value which could be attributable to SHB's December 31, 2013 core deposits. FIG Partners subtracted a potential credit mark of \$2,980,000. The aggregate adjusted net asset value of SHB was determined to be \$24,655,000 or \$18.90 per SHB common share.

The fairness opinion is directed only to the question of whether the consideration to be received by SHB's shareholders under the Merger Agreement is fair and equitable from a financial perspective and does not constitute a recommendation to any SHB shareholder to vote in favor of the merger. No limitations were imposed on FIG Partners regarding the scope of its investigation or otherwise by the SHB.

Based on the results of the various analyses described above, FIG Partners concluded that the consideration to be received by SHB's shareholders under the Merger Agreement was fair and equitable from a financial perspective to the shareholders of SHB as of the date of the fairness opinion.

FIG Partners will receive total fees of approximately \$434,750 for all services performed in connection with the sale of SHB and the rendering of the fairness opinion assuming First Citizens' stock price equals \$44.00 at the time of the closing of the proposed merger. In addition, SHB has agreed to indemnify FIG Partners and its directors, officers and employees, from liability in connection with the transaction, and to hold FIG Partners harmless from any losses, actions, claims, damages, expenses or liabilities related to any of FIG Partners' acts or decisions made in good

faith and in the best interest of SHB. Other than with respect to the proposed merger, FIG Partners has not been engaged to provide services to SHB during the past two years.

Opinion of Financial Advisor to First Citizens

Olsen Palmer, as part of its investment banking services, is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. Based on Olsen Palmer's reputation and qualifications in evaluating financial institutions, the board of directors of First Citizens engaged Olsen Palmer on May 24, 2013 to provide financial advisory services in connection with the merger and to issue a fairness opinion to the board of directors of First Citizens as to the fairness, from a financial point of view, to First Citizens of the financial terms of the proposed transaction. A copy of Olsen Palmer's fairness opinion, dated March 19, 2014, which sets forth certain assumptions made, matters considered and limits on the review undertaken by Olsen Palmer, is attached as Annex D to this Proxy Statement/Prospectus.

No limitations were imposed by First Citizens' board of directors on Olsen Palmer with respect to the investigations made or procedures followed in rendering its opinion. Neither Olsen Palmer nor the individuals involved in providing Olsen Palmer's fairness opinion to First Citizens has any present or contemplated future ownership interest in First Citizens. Olsen Palmer will receive a fee for its financial advisory services, a substantial portion of which is contingent upon the closing of the merger. Pursuant to the terms of its engagement letter with First Citizens, Olsen Palmer received a \$50,000 fee for providing the fairness opinion and upon completion of the merger will receive a success fee from First Citizens in an amount equal to \$250,000. In addition, First Citizens has agreed to indemnify Olsen Palmer against certain liabilities and expenses arising out of or incurred in connection with its engagement, including liabilities and expenses which may arise under the federal securities laws. While employed by other firms, certain principals of Olsen Palmer have provided investment banking and financial advisory services to First Citizens during the two year period prior to the date when Olsen Palmer was engaged by First Citizens. Olsen Palmer may in the future provide investment banking and financial advisory services to First Citizens and receive compensation for such services.

In conducting its fairness analysis, Olsen Palmer reviewed, among other things, the following:

- the Merger Agreement;
- certain financial statements and other historical financial information of First Citizens that it deemed relevant;
- certain financial statements and other historical financial information of SHB that it deemed relevant;
- financial projections for First Citizens for the years ending December 31, 2014 through December 31, 2018 prepared using growth rates and guidance from senior management of First Citizens;
- internal financial projections for SHB for the year ending December 31, 2014 as provided by senior management of SHB and as adjusted by senior management of First Citizens;
- the pro forma financial impact of the merger of First Citizens based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings and other synergies as determined by the senior management of First Citizens;
- a comparison of certain financial information and stock trading information for First Citizens and SHB with similar institutions for which publicly available information is available;
- the financial terms of certain recent business combinations in the commercial banking industry, to the extent publicly available;
- the current market environment generally and the banking environment in particular; and
- such other information, financial studies, analyses and investigations and financial, economic and market criteria as Olsen Palmer considered relevant.

Olsen Palmer also held discussions with certain members of First Citizens' senior management and First Citizens' representatives concerning the business, financial condition, results of operations and prospects of First Citizens and held similar discussions with certain members of senior management of SHB and its representatives regarding the business, financial condition, results of operations and prospects of SHB.

In conducting its fairness analysis and rendering its opinion, Olsen Palmer relied upon and assumed the accuracy and completeness of the financial and other information provided to it by First Citizens or SHB and the information that was publicly available. Olsen Palmer was not asked to and did not undertake an independent verification of any of such information and Olsen Palmer does not assume any responsibility or liability for the accuracy or completeness thereof. Olsen Palmer did not make or obtain any evaluations or appraisals of the First Citizens' or SHB's assets, did not make an independent evaluation of the adequacy of the allowance for loan losses of First Citizens or SHB, nor did it examine any individual credit files related to First Citizens or SHB.

Several analytical methodologies were employed by Olsen Palmer and no one method of analysis should be regarded as critical to the overall conclusion reached by Olsen Palmer. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the efficacy of particular techniques. The overall conclusions reached by Olsen Palmer are based on all the analysis and factors presented, taken as a whole, and also on application of Olsen Palmer's own experience and judgment. Such conclusions may involve significant elements of subjective judgment and qualitative analysis. Olsen Palmer therefore gives no opinion as to the value or merit of any one or more parts of the analyses standing alone.

In preparing its analyses, Olsen Palmer used earnings estimates and growth rates based on management guidance for First Citizens and internal projections for SHB as provided by senior management of SHB and as adjusted by senior management of First Citizens. Olsen Palmer also received and used in its analyses certain projections of transaction costs, purchase accounting adjustments, expected cost savings and other synergies which were prepared by and/or reviewed with the senior management of First Citizens. With respect to those projections, guidance, estimates and judgments, the respective management of First Citizens and SHB confirmed to Olsen Palmer that those projections, guidance, estimates and judgments reflected the best currently available good faith projections, guidance, estimates and judgments of such respective management of the future financial performance of First Citizens and SHB, respectively, and Olsen Palmer assumed that such performance would be achieved. Olsen Palmer expressed no opinion as to such estimates or the assumptions on which they are based. Olsen Palmer also assumed that there has been no material change in First Citizens' and SHB's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to Olsen Palmer. Olsen Palmer assumed in all respects material to its analysis that First Citizens and Southern Heritage Bank will remain as going concerns for all periods relevant to its analyses, that all of the

representations and warranties contained in the Merger Agreement and all related agreements are true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the Merger Agreement and related agreements, that the conditions precedent in the Merger Agreement are not waived and that the merger is lawful and will qualify as a tax-free reorganization for federal income tax purposes Olsen Palmer also assumed that the form and amount of merger consideration was determined through arms length negotiation between First Citizens and SHB and that in the course of obtaining any necessary regulatory approvals for the consummation of the merger, no conditions will be imposed that will have a material adverse effect on the combined entity or contemplated benefits of the merger, including the cost savings and related synergies expected to result from the merger. With First Citizens' consent, Olsen Palmer relied upon the advice First Citizens has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the Merger Agreement.

Olsen Palmer's opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion. Events occurring after the date of its opinion could materially affect Olsen Palmer's opinion. Olsen Palmer has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date of its fairness opinion.

Olsen Palmer's opinion is directed to the board of directors of First Citizens in connection with its consideration of the Merger and does not constitute a recommendation to the board of directors of First Citizens or to any shareholder of either First Citizens or SHB as to how any such member of the board or any shareholder should vote at any meeting called to consider and vote upon the merger. Olsen Palmer expressed no opinion as to the fairness of the merger consideration to the holders of any class of securities, creditors or other constituencies of First Citizens. The opinion is directed only to the fairness, from a financial point of view, of the merger consideration to First Citizens and did not address the underlying business decision of First Citizens to engage in the merger, the relative merits of the merger as compared to any other alternative business strategies that might exist for First Citizens or the effect of any other transaction in which First Citizens might engage. In addition, no opinion was expressed as to the value of the stock consideration when issued to the holders of SHB stock pursuant to the Merger Agreement or the prices at which shares of First Citizens common stock may trade any time hereafter. Olsen Palmer did not express any opinion as to the fairness of the amount or nature of the compensation to be received in the merger by any officer, director, or employees, or class of such persons, relative to the compensation to be received in the merger by any other shareholder.

The following summarizes the material financial analyses presented by Olsen Palmer to the First Citizens Board at its meeting on March 19, 2013, which material was considered by Olsen Palmer in rendering its opinion. No company or transaction used in the analyses described below is identical or directly comparable to SHB or the contemplated merger.

Selected Public Companies Analysis.

Olsen Palmer analyzed the relative valuation multiples as calculated by SNL Financial LC of 12 publicly-traded banks headquartered in Southeast U.S. (geography defined by SNL Financial LC) with total assets less than \$1.5 billion, a ratio of non-performing assets to total assets of less than 2.0% for the most recent quarter available, and a return on average assets of greater than 0.0% for the last twelve months available, including:

- Heritage Financial Group, Inc.
- C&F Financial Corporation
- WashingtonFirst Bankshares, Inc.
- National Bankshares, Inc.
- Monarch Financial Holdings, Inc.
- First Bancshares, Inc.
- Southern First Bancshares, Inc.
- First Community Corporation
- Xenith Bankshares, Inc.
- Bank of the James Financial Group, Inc.
- Oconee Federal Financial Corp.
- First West Virginia Bancorp, Inc.

Olsen Palmer analyzed various financial multiples for each company as calculated by SNL Financial LC including trading price to tangible book value per share, trading price to last 12 months earnings per share, market capitalization to total assets, and the core deposit premium implied by the market capitalization. Olsen Palmer reviewed the mean, median, high and low values for each metric of the selected public companies and compared them to corresponding valuation multiples for SHB implied by the merger consideration. Furthermore, Olsen Palmer selected financial multiples for each metric based on professional judgment and applied the selected financial multiples to SHB's 2013 earnings, tangible book value at December 31, 2013, total assets at December 31, 2013, and core deposits at December 31, 2013 and determined the implied equity price per share of SHB common stock and then compared those implied equity values per share to the merger consideration of \$24.50 per share. The results of the selected public companies analysis are summarized below:

	Price to Last 12 Months Earnings per Share	Price to Tangible Book Value per Share	Market Capitalization to Assets	Core Deposit Premium Implied by Market Capitalization
Low	8.4x	96.7%	6.64%	(0.51%)
High	32.8x	182.1%	28.13%	13.06%
Median	13.9x	127.2%	9.22%	3.18%
Mean	15.8x	124.4%	11.82%	5.31%
Olsen Palmer Selected Financial Multiples Range	14.0x - 17.0x	120.0% - 140.0%	9.0% - 13.0%	3.0% - 6.0%
SHB Implied Value Range per Share	\$29.05 - \$35.28	\$18.35 - \$21.41	\$16.25 - \$23.47	\$19.67 - \$24.06
Merger Consideration per Share	\$24.50	\$24.50	\$24.50	\$24.50

Selected Transactions Analysis.

Olsen Palmer analyzed publicly available information relating to 17 selected acquisitions of banks announced between March 17, 2012 and March 16, 2014 for targets headquartered in the Southeast U.S. (geography defined by SNL Financial LC) with total assets less than \$1.0 billion, a ratio of non-performing assets to total assets of less than 2.0% for the most recent quarter available, and a return on average assets of greater than 0.0% for the last twelve months available. The selected transactions used in the analysis included (buyer / seller announce date):

- TriSummit Bank / Community National Bank - 1/14/14
- Banco Sabadell SA / JGB Bank NA - 12/4/13
- Premier Financial Bancorp Inc. / Bank of Gassaway - 11/19/13
- Southern Missouri Bancorp Inc. / Ctzns State Bkshs of Bald Knob - 11/7/13
- Home Bancorp Inc. / Britton & Koontz Capital Corp. - 11/5/13
- NewBridge Bancorp / CapStone Bank - 11/1/13
- Georgia Commerce Bancshares / Brookhaven Bank - 10/1/13
- New Century Bancorp Inc. / Select Bancorp Inc. - 9/30/13
- Cardinal Financial Corp. / United Financial Banking Co. - 9/9/13
- Community & Southern Hldgs Inc. / Verity Capital Group Inc. - 9/4/13
- First Community Corp. / Savannah River Financial Corp. - 8/14/13
- Carolina Alliance Bank / Forest Commercial Bank - 8/8/13
- First Federal Bancshares of AR / First National Security Co. - 7/1/13
- Old Florida Bancshares Inc. / New Traditions National Bank - 11/6/12
- Bank of the Ozarks Inc. / Genala Banc Inc. - 10/4/12

- Peoples Bancorp Inc. / Sistersville Bancorp Inc. - 6/5/12
- Community Bancshares of MS / Community Holding Co. of FL - 5/11/12

Olsen Palmer analyzed various financial multiples for each transaction as calculated by SNL Financial LC including price to tangible book value, price to last 12 months earnings, price to total assets, and the core deposit premium implied by the transaction value. Olsen Palmer reviewed the mean, median, high and low values for each metric of the selected transactions and compared them to corresponding valuation multiples for SHB implied by the merger consideration. Furthermore, Olsen Palmer selected financial multiples for each metric based on professional judgment and applied the selected financial multiples to SHB's 2013 earnings, tangible book value at December 31, 2013, total assets at December 31, 2013, and core deposits at December 31, 2013 and determined the implied equity price per share of SHB common stock and then compared those implied equity values per share to the merger consideration of \$24.50 per share. The results of the selected public companies analysis are summarized below:

	Price to Last 12 Months Earnings per Share	Price to Tangible Book Value per Share	Price to Assets	Core Deposit Premium Implied by Transaction Value
Low	8.0x	86.7%	8.5%	(2.1%)
High	52.5x	264.5%	25.4%	18.1%
Median	16.7x	120.0%	12.9%	3.3%
Mean	23.0x	131.1%	14.5%	3.8%
Olsen Palmer Selected Financial Multiples Range	16.0x - 20.0x	120.0% - 150.0%	12.0% - 15.0%	3.0% - 5.0%
SHB Implied Value Range per Share	\$33.20 - \$41.50	\$18.35 - \$22.94	\$21.67 - \$27.08	\$19.67 - \$22.60
Merger Consideration per Share	\$24.50	\$24.50	\$24.50	\$24.50

Discounted Cash Flow Analysis.

Olsen Palmer analyzed the discounted present value of SHB's projected free cash flows for the years ending December 31, 2014 through 2018 on a standalone basis. Olsen Palmer estimated cash flows based on dividendable tangible common equity, defined as the tangible common equity in excess of a minimum 8.0% tangible common equity to tangible assets ratio. The discounted cash flow analysis was based on SHB financial forecasts provided by senior management of First Citizens. Olsen Palmer used calendar year 2018 as the final year for the analysis. Olsen Palmer applied price to earnings multiples, ranging from 16.0x to 20.0x, to SHB's calendar year 2018 net income in order to derive a range of terminal values for SHB in 2018.

The projected cash flows and terminal values were discounted using rates ranging from 12.0% to 14.0%, which reflected the cost of equity capital estimated for SHB using the Ibbotson discount rate build-up method based on the sum of a risk-free rate, equity risk premium, and size premium. The resulting range of present equity values was divided by the number of shares outstanding in order to arrive at a range of present values per SHB share. Olsen Palmer reviewed the range of per share prices derived in the discounted cash flow analysis and compared them to the price per share for SHB implied by the merger consideration. The results of the discounted cash flow analysis are summarized below:

	Equity Value per Share
Minimum	\$22.46
Maximum	\$29.39
Merger Consideration per Share	\$24.50

Conclusion.

Based upon and subject to the foregoing, it is Olsen Palmer's opinion that, as of March 19, 2014, the merger consideration to be issued pursuant to the terms of the Merger Agreement is fair, from a financial point of view, to First Citizens.

The full text of the opinion of Olsen Palmer, dated March 19, 2014, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Annex D to this Proxy Statement/Prospectus.

Regulatory Approval

The merger must be approved by the Federal Reserve. First Citizens filed the Notification pursuant to Section 3(a)(5) of the Bank Holding Company Act with the Federal Reserve on April 4, 2014. In connection with the Notification, First Citizens was required to publish public notice of the merger in the newspapers of general circulation in the communities served by the head offices of First Citizens National Bank and Southern Heritage Bank which provided for a 30-day period for public comments. First Citizens published the required notices on April 8, 2014. The Federal Reserve is required to act on the Notification within five days of the end of the public comment period. Once the Federal Reserve has approved the merger, federal law requires a waiting period of up to 30 calendar days to complete the merger in order to give the U.S. Department of Justice the opportunity to review and object to the merger. The Federal Reserve approved the merger on May 13, 2014, and has extended the deadline by which it must close to November 13, 2014 .

The merger must also be approved by the TDFI. First Citizens filed an application with the TDFI on April 4, 2014. In connection with the Application, First Citizens was required to publish public notice of the merger in the newspapers of general circulation in each county in which First Citizens National Bank and Southern Heritage Bank have their main offices which provided for a 15-day period for public comments. First Citizens published the required notices on April 8, 2014. In addition to the Application, the TDFI was provided a copy of the Notification to the Federal Reserve and has 30 calendar days to provide any comments to the Federal Reserve on the proposed merger. The TDFI approved the application on July 24, 2014.

Further, because SHB has agreed to use its best efforts to redeem the SBLF investment by the United States Treasury in the Series D preferred stock of SHB, the Federal Reserve's consent will also be required for this redemption. The Merger Agreement requires SHB to use its best efforts to (a) cause the redemption of all SBLF preferred stock prior to the effective time of the merger such that, as of the effective time, SHB will have no SBLF preferred stock issued or outstanding, or (b) give proper notice to call for redemption of all outstanding SBLF preferred stock and deposit sufficient funds in trust for such redemption, in each case pursuant to the applicable provisions of the Small Business Lending Fund - Securities Purchase Agreement No. 0438 dated September 8, 2011, by and between SHB and the United States Department of Treasury. A request must be filed with the Federal Reserve by SHB to obtain its consent to consummate the SBLF redemption. In addition, in order to fund the SBLF Redemption, Southern Heritage Bank intends to declare an extraordinary cash dividend, which will require the approval of the FDIC and TDFI.

We also intend to make all required filings with the SEC under the Securities Act and the Securities Exchange Act, relating to the merger, and with applicable states securities regulatory authorities to the extent required to register the offering of First Citizens stock or to claim an exemption from registration requirements. We cannot assure you as to whether or when the requisite regulatory approvals will be obtained and, if obtained, we cannot assure you as to the date of receipt of any of these approvals, the terms thereof or the absence of any litigation challenging them. Likewise, we cannot assure you that the U.S. Department of Justice or a state attorney general will not attempt to challenge the merger on antitrust grounds or, if such a challenge is made, as to the result of that challenge.

The merger cannot proceed in the absence of these required regulatory approvals. The approval of any notice or application merely implies satisfaction of regulatory criteria for approval, and does not include review of the merger from the standpoint of the adequacy of the consideration to be received by, or fairness to, shareholders. Regulatory approval does not constitute an endorsement or recommendation of the proposed merger.

First Citizens and SHB are not aware of any material governmental approvals or actions that are required prior to the parties' completion of the merger other than those described in this Proxy Statement/Prospectus. If any additional governmental approvals or actions are required, the parties presently intend to seek those approvals or actions. The parties cannot assure you, however, that any of these additional approvals or actions will be obtained.

Accounting Treatment

The merger will be accounted for as an acquisition by First Citizens using the acquisition method of accounting in accordance with FASB ASC topic 805, Business Combinations. SHB will be treated as the acquired corporation for accounting and financial reporting purposes. SHB's assets, liabilities and other items will be adjusted to their estimated fair value on the closing date of the merger and combined with the historical book

values of the assets and liabilities of First Citizens. Applicable income tax effects of these adjustments will be included as a component of the combined company's deferred tax asset or liability. The difference between the estimated fair value of the assets (including separately identifiable intangible assets, such as core deposit intangibles), liabilities and other items (adjusted as discussed above) and the purchase price will be recorded as goodwill. Consolidated financial statements of First Citizens issued after the merger will reflect these fair values of assets acquired and liabilities assumed and will not be restated retroactively to reflect the historical financial position or results of operations of SHB.

Material United States Federal Income Tax Consequences

This section describes the anticipated material U.S. federal income tax consequences of the merger generally applicable to U.S. holders (as defined below) of SHB stock who exchange shares of SHB stock for shares of First Citizens stock, cash, or a combination of cash and shares of First Citizens stock pursuant to the merger.

For purposes of this discussion, a U.S. holder means a beneficial owner of SHB stock that is:

- a citizen or resident of the United States;
- a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the U.S. or any State or the District of Columbia;
- a trust that (i) is subject to both the primary supervision of a court within the United States and the control of one or more U.S. persons, or (ii) has a valid election in effect under applicable U.S. treasury regulations to be treated as a U.S. person; or
- an estate that is subject to U.S. federal income tax on its income regardless of its source.

If a partnership (including any entity or arrangement, domestic or foreign, that is treated as a partnership for U.S. federal income tax purposes) holds SHB stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisors regarding the tax consequences of the merger to them.

This discussion addresses only those U.S. holders of SHB stock who hold the stock as a capital asset within the meaning of Section 1221 of the Code. This discussion deals only with the U.S. federal income tax consequences of the merger. No information is provided regarding the tax consequences of the merger under state, local, gift, estate, foreign or other tax laws. We do not intend it to be a complete description of the U.S. federal income tax consequences of the merger to all SHB shareholders in light of their particular circumstances or to holders of SHB stock subject to special treatment under U.S. federal income tax laws, such as:

- tax-exempt organizations;
- financial institutions, insurance companies, mutual funds and dealers or brokers in securities;
- persons who have elected to use the mark-to-market method of accounting with respect to their securities holdings;
- shareholders who hold their shares of SHB stock as part of a hedge, straddle, wash sale, synthetic security, conversion transaction or other integrated investment comprised of shares of SHB stock and one or more other investments;
- dealers in securities or foreign currencies or traders in securities;
- persons who acquired their shares of SHB stock through the exercise of employee stock options, through a benefit plan, through exercise of warrants or otherwise in a compensatory transaction;
- shareholders who are not U.S. persons within the meaning of the Code;
- expatriates or persons who have a functional currency other than the U.S. dollar;
- partnerships or other pass-through entities and investors in such entities; or
- shareholders who exercise their dissenters' rights.

This discussion does not address any alternative minimum tax, U.S. federal estate or gift tax, or any state, local or foreign tax consequences of the merger, nor does it address any tax consequences arising under the unearned income Medicare contribution tax. This discussion and the tax opinions (described below) are based upon the provisions of the Code, applicable Treasury regulations, administrative rulings and judicial decisions, all as in effect as of the date of this Proxy Statement/Prospectus. There can be no assurance that future legislative, administrative or judicial changes or interpretations, which changes could apply retroactively, will not affect the accuracy of this discussion or the statements or conclusions set forth in the tax opinions referred to below.

First Citizens and SHB have structured the merger with an intent to qualify as a reorganization within the meaning of Section 368(a) of the Code. In connection with the filing of the registration statement of which this Proxy Statement/Prospectus forms a part, Waller Lansden Dortch & Davis, LLP (Waller Lansden), tax counsel to First Citizens, has delivered its opinion to First Citizens and Baker, Donelson, Bearman Caldwell & Berkowitz, PC (Baker Donelson), tax counsel to SHB, has delivered its opinion to SHB that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and that First Citizens and SHB will each be a party to that reorganization. Copies of these opinions have been filed as exhibits to First Citizens' registration statement, which has been filed with the SEC. Such opinions have been rendered on the basis of facts, representations, and assumptions set forth or referred to in such opinions and factual representations contained in certificates of the officers of First Citizens and SHB, all of which must continue to be true and accurate in all material respects as of the effective time of the merger. The parties will not be required to consummate the merger unless they receive additional opinions of their respective counsel, dated the closing date of the merger, confirming that the merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and that First Citizens and SHB will each be a party to that reorganization.

The opinions of the parties' respective counsel regarding the merger have relied, and the opinions regarding the merger as of the closing date will each rely on, representations, warranties and covenants made by First Citizens and SHB, including those contained in certificates of officers of First Citizens and SHB, and specified assumptions, including an assumption regarding the completion of the merger in the manner contemplated by the Merger Agreement. In addition, the opinions of the parties' respective counsel have assumed, and such counsel's ability to provide the opinions at the closing of the merger will depend on, the absence of changes to the anticipated facts or changes in law between the date of this Proxy Statement/Prospectus and the closing date. If any of those representations, covenants or assumptions is inaccurate, the parties' respective counsel may not be able to provide one or more of the required opinions to be delivered at the closing of the merger and/or the tax consequences of the merger could differ from those described in the opinions that counsel have delivered. The opinions of the parties' respective counsel do not bind the Internal Revenue Service (IRS) and do not preclude the IRS or the courts from adopting a contrary position. First Citizens and SHB have not requested and do not intend to obtain a ruling from the IRS on the tax consequences of the merger.

U.S. Federal Income Tax Consequences of the Merger to SHB Shareholders

SHB Shareholders Receiving Only First Citizens Stock

No gain or loss will be recognized by a holder of SHB stock as a result of the surrender of shares of SHB stock solely in exchange for shares of First Citizens stock pursuant to the merger (except with respect to cash received instead of a fractional share of First Citizens stock, as discussed below). The aggregate tax basis of the shares of First Citizens stock received in the merger (including any fractional shares of First Citizens stock deemed received) will be the same as the aggregate tax basis of the shares of SHB stock surrendered in exchange for the First Citizens stock. The holding period of the shares of First Citizens stock received (including any fractional shares of First Citizens stock deemed received) will include the holding period of shares of SHB stock surrendered in exchange for the First Citizens stock, provided that such shares of SHB stock were held as capital assets of the shareholder at the effective time of the merger.

SHB Shareholders Receiving Only Cash

A holder of SHB stock that does not receive any shares of First Citizens stock pursuant to the merger (and is not treated as constructively owning, after the merger, First Citizens stock held by certain family members and entities affiliated with the holder under the Code) will generally recognize gain or loss equal to the difference between the amount of cash received and the holder's adjusted tax basis in the shares of SHB stock exchanged in the merger. Such gain or loss will be a capital gain or loss, provided that such shares of SHB stock were held as capital assets by the shareholder at the effective time of the merger. Such capital gain or loss will be a long-term capital gain or loss to the extent that, at the effective time of the merger, the holder has a holding period in such SHB stock of more than one year. The Code contains limitations on the extent to which a taxpayer may deduct capital losses from ordinary income.

SHB Shareholders Receiving Both Cash and First Citizens Stock

A holder of SHB stock who receives a combination of cash and First Citizens stock (other than cash received instead of a fractional share of First Citizens stock) in exchange for shares of SHB stock pursuant to the merger generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of cash received by such holder of SHB stock (in each case excluding any cash received instead of fractional share interests in First Citizens stock, which shall be treated as discussed below), and (2) the amount by which the sum of the fair market value of the First Citizens stock and cash received by a holder of SHB stock exceeds such holder's tax basis in its SHB stock. Any recognized gain could be taxed as a capital gain or a dividend. Such gain will generally be capital gain (provided that such shares of SHB stock were held as capital assets by the shareholder at the effective time of the merger), unless the holder's exchange of SHB stock for cash and First Citizens stock has the effect of the distribution of a dividend after giving effect to the constructive ownership rules of the Code, in which case such gain might be treated as ordinary income. If any gain of a former SHB shareholder is treated as a dividend under Section 356 of the Code, the amount of the gain so treated as a dividend is equal to each former SHB shareholder's ratable share of the accumulated earnings and profits of SHB, not First Citizens, and any amount of gain in excess of such ratable share is treated as capital gain. Any capital gain recognized generally will be long-term capital gain to the extent that, at the effective time of the merger, the holder has a holding period in the SHB stock exchanged in the merger of more than one year. Because the determination of whether a cash payment will be treated as having the effect of a dividend depends primarily upon the facts and circumstances of each SHB shareholder, SHB shareholders are urged to consult their own tax advisors regarding the tax treatment of any cash received in the merger. A SHB shareholder who receives a combination of First Citizens stock and cash in exchange for his or her SHB stock will not be permitted to recognize any loss for U.S. federal income tax purposes.

The aggregate initial tax basis of the shares of First Citizens stock received in the merger (including any fractional share of First Citizens stock deemed received) will be the same as the aggregate tax basis of the shares of SHB stock surrendered in the merger, increased by the amount of gain recognized in the exchange (whether characterized as capital gain or a dividend, but excluding any gain recognized with respect to any cash

received in lieu of a fractional share of First Citizens stock) and reduced by the amount of cash received in the exchange (excluding any cash received in lieu of a fractional share of First Citizens stock). The holding period of the shares of First Citizens stock received (including any fractional share of First Citizens stock deemed received) will include the holding period of shares of SHB stock surrendered in exchange for the First Citizens stock, provided that such shares of SHB stock were held as capital assets of the shareholder at the effective time of the merger.

A SHB shareholder's U.S. federal income tax consequences will also depend on whether his or her shares of SHB stock were purchased at different times at different prices. If they were, the SHB shareholder could realize gain with respect to some of the shares of SHB stock and loss with respect to other shares. Such SHB shareholder would have to recognize such gain to the extent such shareholder receives cash with respect to those shares of SHB stock in which the shareholder's adjusted tax basis is less than the amount of cash plus the fair market value at the effective time of the merger of the First Citizens stock received, but could not recognize loss with respect to those shares of SHB stock in which the SHB shareholder's adjusted tax basis is greater than the amount of cash plus the fair market value at the effective time of the merger of the First Citizens stock received. Any disallowed loss would be included in the adjusted basis of the First Citizens stock. Such a SHB shareholder is urged to consult his or her own tax advisor respecting the tax consequences of the merger to that shareholder.

Cash In Lieu of Fractional Shares of First Citizens Stock

Holders of SHB stock who receive cash in lieu of a fractional share of First Citizens stock will be treated as having received the fractional share in the merger and then as having the fractional share redeemed by First Citizens in exchange for the cash actually distributed instead of the fractional share, with such redemption qualifying as an exchange under Section 302 of the Code. Accordingly, such holders will generally recognize gain or loss equal to the difference between the tax basis of the holder's SHB stock allocable to that fractional share and the amount of cash received. The gain or loss generally will be capital gain or loss, and long-term capital gain or loss if the SHB stock exchanged has been held for more than one year. The deductibility of capital losses is subject to limitations.

Backup Withholding

A holder of SHB stock may be subject, under certain circumstances, to backup withholding at a rate of 28% with respect to the amount of cash, if any, received in the merger, including cash received instead of fractional shares of First Citizens stock, unless the holder provides proof of an applicable exemption satisfactory to First Citizens and the exchange agent or furnishes its correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules is not additional tax and may be refunded or credited against the holder's U.S. federal income tax liability, so long as the required information is timely furnished to the IRS.

Certain Tax Reporting Rules

Under applicable Treasury regulations, significant holders of SHB stock will be required to comply with certain reporting requirements and generally will be required to file a statement with the holder's U.S. federal income tax return for the taxable year in which the consummation of the merger occurs. That statement must set forth the holder's adjusted tax basis in, and the fair market value of, the shares of SHB stock surrendered pursuant to the merger (both as determined immediately before the surrender of shares), the date of the merger, and the name and employer identification number of First Citizens and SHB, and the holder will be required to retain permanent records of these facts. We urge each holder of SHB stock to consult its tax advisor as to whether such holder may be treated as a significant holder.

The preceding discussion is intended only as a summary of material United States federal income tax consequences of the merger. It is not a complete analysis or discussion of all potential tax effects that may be important to you. SHB shareholders are strongly encouraged to consult their own tax advisor as to the specific tax consequences resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local and other tax laws and the effect of any proposed changes in the tax laws.

Dissenters' Rights

Introductory Information

General. Dissenters' rights with respect to SHB's voting stock are governed by the Tennessee Banking Act, which incorporates the dissenters' rights provisions of the Tennessee Business Corporation Act. Shareholders of SHB have the right to dissent from the merger and to obtain payment of the fair value of their shares (as specified in the statute) in the event SHB completes the merger. Strict compliance with the dissent procedures is mandatory. Subject to the terms of the Merger Agreement, SHB could elect to terminate the Merger Agreement even if it is approved by SHB's shareholders, thus cancelling dissenters' rights.

The term "fair value" means the value of a share of SHB's outstanding voting stock immediately before the completion of the merger, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the merger.

If you contemplate exercising your right to dissent, we urge you to read carefully the provisions of Chapter 23 of the Tennessee Business Corporation Act which are attached to this Proxy Statement/Prospectus as Annex B. A more detailed discussion of the provisions of the statute is included there. The discussion describes the steps that you must take if you want to exercise your right to dissent. You should read both the summary contained in this section of the Proxy Statement/Prospectus and the full text of the law. We cannot give you legal advice. To completely understand this law, you may want, and we encourage you, to consult with your legal advisor. If you wish to dissent, do not send in a signed proxy unless you mark your proxy to vote against the merger or you will lose the right to dissent.

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Address for Notices. Send or deliver any written notice or demand required concerning your exercise of dissenters' rights to J. Lee Stewart, President and Chief Executive Officer, Southern Heritage Bancshares, Inc., 3020 Keith Street NW, Cleveland, Tennessee 37312.

We urge you to act carefully. We cannot and do not accept the risk of late or undelivered notices or demands. You may call SHB at (423) 473-7980 and ask for J. Lee Stewart or Steve Ledbetter to receive confirmation that your notice or demand has been received. If your notice or demand is not timely received by SHB, then you will not be entitled to exercise your dissenters' rights. SHB's shareholders bear the risk of non-delivery and of untimely delivery.

If you intend to dissent, or if you think that dissenting might be in your best interests, you should read Annex B carefully.

Summary of Chapter 23 of the Tennessee Business Corporation Act Dissenters Rights

The following is a summary of Chapter 23 of the Tennessee Business Corporation Act and the procedures that a shareholder must follow to dissent from the proposed merger and to perfect his, her or its dissenters rights and receive cash rather than shares of First Citizens stock if the Merger Agreement is approved and the merger is completed. This summary is qualified in its entirety by reference to Chapter 23, which is reprinted in full as part of this Annex B to this Proxy Statement/Prospectus. Annex B should be reviewed carefully by any shareholder who wishes to perfect his or her dissenters rights. Failure to strictly comply with the procedures set forth in Chapter 23 will, by law, result in the loss of dissenters rights. It may be prudent for a person considering whether to dissent to obtain professional counsel.

If the proposed merger of SHB with and into First Citizens is completed, any shareholder who has properly perfected his or her statutory dissenters rights in accordance with Chapter 23 has the right to obtain, in cash, payment of the fair value of such shareholder s shares of SHB stock. By statute, the fair value is determined immediately prior to the completion of the merger and excludes any appreciation or depreciation in anticipation of the merger.

To exercise dissenters rights under Chapter 23, a SHB shareholder must:

- deliver to SHB, before the annual meeting, written notice of her, his or its intent to demand payment for her, his or its shares of SHB s outstanding stock if the merger is completed; and
- not vote her, his or its shares in favor of approving and adopting the merger.

A shareholder of record who fails to satisfy both of these two requirements is not entitled to payment for her, his or its shares of SHB stock under Chapter 23. In addition, any shareholder who returns a signed proxy but fails to provide instructions as to the manner in which such shares are to be voted will be deemed to have voted in favor of approving and adopting the merger and will not be entitled to assert dissenters rights.

A shareholder may assert dissenters rights as to fewer than all the shares registered in her, his or its name only if she, he or it dissents with respect to all shares beneficially owned by any one beneficial shareholder and notifies SHB in writing of the name and address of each person on whose behalf she, he or it is asserting dissenters rights. The rights of such a partial dissenter are determined as if the shares as to which he or she dissents and his or her other shares are registered in the names of different SHB shareholders.

If the merger is approved and adopted at the SHB shareholders meeting, SHB must deliver a written dissenters notice (the Dissenters Notice) to all SHB shareholders who satisfied the two requirements of Chapter 23 described above. The Dissenters Notice must be sent no later than 10 days after the effective time (the date that the merger is completed) and must:

- State where the demand for payment must be sent and where and when certificates for certificated shares must be deposited;
- Inform holders of uncertificated shares to what extent transfer of those shares will be restricted after the demand for payment is received;
- Supply a form for demanding payment that includes the date of the announcement of the proposed merger to the public (March 20, 2014) and requires that the shareholder asserting dissenters rights certify whether or not she, he or it acquired beneficial ownership of such shares prior to said date;
- Set a date by which SHB must receive the demand for payment (which date may not be fewer than 40 nor more than 60 days after the Dissenters Notice is delivered) and states that the shareholder shall have waived his or her right to demand payment unless the form is received by such specified date;
- State SHB s estimate of the fair value of the shares;
- State that upon written request SHB will provide to such SHB shareholder the number of shareholders who return the forms and the number of shares held thereby;
- State the date by which the notice to withdraw his or her demand must be sent, which must be within 20 days of the date upon which the form must be received by SHB; and
- Be accompanied by a copy of Chapter 23, if not previously provided to such shareholder (set forth in Annex B to this document).

A SHB shareholder of record on the record date who receives the Dissenters Notice must demand payment, certify that she, he or it acquired beneficial ownership of such shares prior to the date set forth in the Dissenters Notice and deposit her, his or its stock certificates in accordance with the terms of the Dissenters Notice. SHB may elect to withhold payment required by Chapter 23 from the dissenting shareholder unless such

shareholder was the beneficial owner of the shares prior to the public announcement of the proposed merger on or about March 20, 2014. A dissenting shareholder will retain all other rights of an SHB shareholder until those rights are canceled or modified by the completion of the merger. A shareholder of record who does not demand payment or deposit her, his or its share certificates where required, each by the date set in the Dissenters' Notice, is not entitled to payment for his, her or its shares under Chapter 23 or otherwise as a result of the merger. A demand for payment may not be withdrawn unless consented to by SHB.

SHB may restrict the transfer of any uncertificated shares from the date the demand for their payment is received until the merger is completed. A SHB shareholder for whom dissenters' rights are asserted as to uncertificated shares of SHB stock retains all other rights of an SHB shareholder until these rights are canceled or modified by the completion of the merger.

At the effective time or upon receipt of a demand for payment, whichever is later, SHB must offer to pay each dissenting shareholder who strictly and fully complied with Chapter 23 the amount that SHB estimates to be the fair value of her, his or its shares, plus accrued interest from the effective time. The offer of payment must be accompanied by:

- Certain recent SHB financial statements;
- SHB's estimate of the fair value of the shares and interest due;
- An explanation of how the interest was calculated;
- A statement of the dissenter's right to demand payment under T.C.A. Section 48-23-209; and
- A copy of Chapter 23, if not previously provided to such shareholder.

If the merger is not completed within two months after the date set for demanding payment and depositing share certificates, SHB must return the deposited certificates and release the transfer restrictions imposed on the uncertificated shares. If, after such return or release, the merger is completed, SHB must send a new Dissenters' Notice and repeat the payment procedure described above.

If a dissenting SHB shareholder is dissatisfied with or rejects SHB's calculation of fair value, such dissenting shareholder must notify SHB in writing of her, his or its own estimate of the fair value of those shares and the interest due, and may demand payment of her, his or its estimate, if:

- She, he or it believes that the amount offered or paid by SHB is less than the fair value of her, his or its shares or that the interest due has been calculated incorrectly;
- SHB fails to make payment within two months after the date set forth for demanding payment; or
- SHB, having failed to complete the merger, does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within two months after the date set for demanding payment.

A dissenting shareholder waives her, his or its right to dispute SHB's calculation of fair value unless she, he or it notifies SHB of her, his or its demand in writing within one month after SHB makes or offers payment for such person's shares.

If a demand for payment by an SHB shareholder remains unsettled, SHB must commence a proceeding in the appropriate court, as specified in Chapter 23, within two months after receiving the demand for payment, and petition the court to determine the fair value of the shares and accrued interest. If SHB does not commence the proceeding within two months, SHB is required to pay each dissenting shareholder whose demand remains unsettled, the amount demanded. SHB is required to make all dissenting SHB shareholders whose demands remain unsettled parties to the proceeding and to serve a copy of the petition upon each dissenting shareholder. The court may appoint one or more appraisers to receive evidence and to recommend a decision on fair value. Each dissenting shareholder made a party to the proceeding is entitled to judgment for the fair value of such person's shares plus interest to the date of judgment.

In an appraisal proceeding commenced under Chapter 23, the court must determine the costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court will assess these costs against SHB, except that the court may assess the costs against all or some of the dissenting shareholders to the extent the court finds they acted arbitrarily, vexatiously, or not in good faith in demanding payment under Chapter 23. The court also may assess the fees and expenses of attorneys and experts for the respective parties against SHB if the court finds that SHB did not substantially comply with the requirements of Chapter 23, or against either SHB or a dissenting shareholder if the court finds that such party acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by Chapter 23.

If the court finds that the services of the attorneys for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated, and that the fees for those services should not be assessed against SHB, the court may award those attorneys reasonable fees out of the amounts awarded the dissenting shareholders who were benefitted.

The foregoing does not purport to be a complete statement of the provisions of the Tennessee Business Corporation Act relating to statutory dissenters' rights and is qualified in its entirety by reference to the dissenters' rights provisions, which are reproduced in full in Annex B to this Proxy Statement/Prospectus and which are incorporated herein by reference.

If you intend to dissent, or if you think that dissenting might be in your best interests, you should read Annex B carefully.

Interests of Certain Persons in the Merger

Certain members of management of SHB and SHB's board of directors may be deemed to have interests in the merger that are in addition to their interests as SHB shareholders generally. SHB's board of directors was aware of these interests and considered them, among other matters, in approving the Merger Agreement. These interests include:

- **Employment Agreements.** As a condition to the merger, First Citizens has required that three of the officers of SHB (J. Lee Stewart, Steve Ledbetter, and Virginia Kibble) enter into employment agreements with non-competition and non-solicitation obligations to be effective upon completion of the merger whereby each individual is entitled to receive a salary, annual bonus, and certain additional incentives;
- **Insurance.** The directors and officers of SHB and Southern Heritage Bank currently covered under comparable policies held by SHB at First Citizens expense will receive directors' and officers' liability insurance coverage for a period of five years after completion of the merger.
- **Indemnification.** The Merger Agreement provides that First Citizens will indemnify each director and officer of SHB or Southern Heritage Bank as of the effective time of the merger against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or before the effective time of the merger, whether asserted or claimed before, at or after the effective time of the merger, arising in whole or in part out of or pertaining to the fact that he or she was acting in his or her capacity as a director or officer of SHB or Southern Heritage Bank to the fullest extent that the indemnified party would be entitled under charter or bylaws or the similar constituent documents of SHB or Southern Heritage Bank, as applicable, as in effect on the date of the Merger Agreement and to the extent permitted by applicable law.

Executive officers and directors of SHB will receive shares of First Citizens voting stock in the merger on the same basis as other SHB shareholders. The following chart shows the number of shares of First Citizens voting stock that may be issued to executive officers, directors and holders of more than 10% of SHB voting stock in the merger:

Beneficial ownership by executive officers, directors and holders of more than 10% of SHB voting stock, and their affiliates, as of June 30, 2014	248,149
Maximum number of shares of First Citizens stock to be received in the merger (based on such beneficial ownership)	71,367

Comparison of Rights of Shareholders

At the effective time of the merger, SHB shareholders who do not exercise dissenters' rights and receive shares of First Citizens stock will automatically become First Citizens shareholders. First Citizens is a Tennessee corporation governed by the provisions of the Tennessee Business Corporation Act and First Citizens' charter, as amended, and bylaws, as amended. SHB is a Tennessee corporation governed by provisions of the Tennessee Business Corporation Act, and SHB's charter, as amended, and bylaws, as amended. See **COMPARISON OF RIGHTS OF SHAREHOLDERS**.

Restrictions on Resales by Affiliates

The shares of First Citizens stock issued in connection with the merger will not be subject to any restrictions on transfer arising under the Securities Act, except for shares issued to any SHB shareholder who may be deemed to be an affiliate of First Citizens after completion of the merger. An affiliate of a corporation, as defined by the rules promulgated under the Securities Act, is a person who directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, that corporation. Affiliates generally include directors, executive officers and beneficial owners of 10% or more of a company's capital stock. Former SHB shareholders who are not affiliates of First Citizens after the completion of the merger may sell their shares of First Citizens stock received in the merger at any time.

Former SHB shareholders who become affiliates of First Citizens after completion of the merger will be subject to the volume and sale limitations of Rule 144 under the Securities Act until they are no longer affiliates of First Citizens. This Proxy Statement/Prospectus does not cover resales of First Citizens stock received by any person upon completion of the merger, and no person is authorized to make any use of or

rely on this Proxy Statement/Prospectus in connection with or to effect any resale of First Citizens shares.

Source of Funds for Cash Portion of Merger Consideration

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First Citizens intends to pay the cash portion of the merger consideration to the SHB shareholders from funds available to First Citizens at closing. First Citizens currently intends these funds to be comprised primarily of \$12 million of borrowing from First Tennessee Bank National Association, \$2 million from the proceeds of an equity offering by its indirect, wholly-owned real estate investment trust subsidiary, and \$2 million from a cash dividend paid by First Citizens National Bank, with the remainder to be paid with cash on hand.

THE MERGER AGREEMENT

The following summary of certain terms and provisions of the Merger Agreement is qualified in its entirety by reference to the Merger Agreement, which is incorporated into this Proxy Statement/Prospectus by reference and, with the exception of exhibits and schedules to the Merger Agreement, is attached as Annex A to this Proxy Statement/Prospectus.

General

The Merger Agreement provides for the merger of SHB with and into First Citizens, at which time the separate corporate existence of SHB will cease and First Citizens will be the surviving corporation. First Citizens will continue to exist as a Tennessee corporation. Southern Heritage Bank will become a wholly-owned subsidiary of First Citizens. Subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement, the merger will become effective upon the filing of the articles of merger in the office of the Secretary of State of Tennessee in accordance with the Tennessee Business Corporation Act. See THE MERGER AGREEMENT - Conditions to the Merger. On June 27, 2014, First Citizens and SHB amended the Merger Agreement to correct a clerical error in the amount to be paid to SHB's shareholders for fractional shares. On August 14, 2014, First Citizens and SHB further amended the Merger Agreement to extend the date upon which the merger must be completed from September 30, 2014 to October 30, 2014 and to provide that the mailing of letters of transmittal and election forms to SHB shareholders by the exchange agent will occur on or immediately following the meeting date of SHB shareholders and that the elections form must be returned by SHB shareholders within fifteen days of such mailing date in order to be considered timely. See Annex A to this Proxy Statement/Prospectus for a copy of the First and Second Amendments to the Merger Agreement.

The merger will have the effects set forth in Section 48-21-108 of the Tennessee Business Corporation Act.

During a special meeting on July 16, 2014, First Citizens' shareholders voted on and approved the First Citizens Charter Amendment authorizing an additional class of common stock (Class A common stock) and a reclassification of First Citizens' outstanding common stock. Upon the filing of the First Citizens Charter Amendment, each share of First Citizens common stock outstanding immediately prior to such filing owned by a shareholder of record who owned between one and 299 shares of such common stock was, by virtue of the filing of the First Citizens Charter Amendment and without any action on the part of the holders, reclassified as Class A common stock, on the basis of one share of Class A common stock per each share of common stock so reclassified. Each share of First Citizens common stock outstanding immediately prior to the filing of the First Citizens Charter Amendment owned by a shareholder of record who owned 300 or more shares of such common stock was not reclassified and continued to be classified as common stock. The First Citizens common stock continues to have unlimited voting rights. The First Citizens Class A common stock has no voting rights, except as may be required by law.

First Citizens' charter, as amended, in effect as of the effective time of the merger will be the charter of the surviving corporation. First Citizens bylaws, as amended, in effect as of the effective time of the merger will be the bylaws of the surviving corporation.

Terms of the Merger

Under the terms of the Merger Agreement, if the Merger Agreement is approved and the merger is completed, all outstanding shares of SHB stock will be canceled and converted into the right to receive an aggregate of (i) \$16,085,903.75 in cash and (ii) shares of First Citizens stock in the amounts as follows: 269,302 shares of First Citizens common stock, no par value per share and 108,356 shares of First Citizens Class A common stock, no par value per share, subject to adjustments as provided in the Merger Agreement and further described herein.

The Merger Agreement provides that, at the effective time of the merger, each share of SHB stock issued and outstanding immediately prior to the effective time of the merger will, subject to the election set forth below, be converted into the right to receive (i) \$12.25 in cash, plus (ii) 0.2876 of a share of First Citizens stock. The amount of per share merger consideration is subject to adjustment as provided in the Merger Agreement and further described herein. The SHB shareholders who hold SHB common stock, \$1.00 par value per share, will receive First Citizens common stock and the SHB shareholders who hold (i) SHB Class A common stock, \$1.00 par value per share, (ii) SHB Class B common stock, \$1.00 par value per share, or (iii) SHB Series A preferred stock, no par value per share, will receive First Citizens Class A common stock.

Under the terms of the Merger Agreement, shareholders of SHB who hold more than one share of SHB stock may elect to receive consideration in exchange for each share of SHB common stock in the form of: (a) 0.5751 shares of First Citizens stock or (b) \$24.50 in cash, as subject to

adjustment pursuant to the merger consideration adjustments as provided in the Merger Agreement and further described herein.

The allocation of the total form of consideration and the total and per share consideration amount is subject to proration and adjustment under certain circumstances as provided in the Merger Agreement, including the requirement that SHB have a certain minimum net worth at closing and an adjustment for SHB's Accumulated Other Comprehensive Income (Loss) if applicable. Shareholders may not receive the form of consideration they elect. The exchange agent under the Merger Agreement will effectuate the allocation among the shareholders of the right to receive the stock consideration, the cash consideration or a combination of both the stock consideration and the cash consideration in the merger in accordance with the adjustments set forth in the Merger Agreement.

On the closing date, the Minimum Net Worth (as defined in the Merger Agreement) of SHB is required to be an amount greater than or equal to \$22,863,000. If the estimated closing equity balance of SHB, to be delivered by SHB to First Citizens not more than 15 business days prior to the closing date, is less than the Minimum Net Worth, the cash consideration will be reduced by an amount equal to the difference between the estimated closing equity balance of SHB and the Minimum Net Worth.

If the closing were to have occurred on August 15, 2014, the latest practicable date prior to the date of first mailing of this Proxy Statement/Prospectus, SHB's closing net worth would have been \$23,628,000, and there would accordingly have been no downward adjustment to the cash portion of the merger consideration, and SHB's management expects that in the ordinary course of business, which SHB's management believes will be the case, the closing equity at the date of determination will be greater than or equal to \$22,863,000. However, in the event of an extraordinary set of circumstances which SHB's management does not currently expect, SHB's closing net worth could be significantly less than \$22,863,000. In such extraordinary circumstances, and assuming First Citizens did not elect to exercise its right to terminate the Merger Agreement for breach of the representation of the absence of certain changes or events pursuant to the Merger Agreement, the per share merger consideration to SHB shareholders could be significantly lower than \$24.50 per share, and if the closing equity were to drop to as low as \$6,777,096.50, then SHB shareholders would receive no cash consideration and would receive only First Citizens stock for their SHB stock of 0.2876 shares of First Citizens stock for each share of SHB stock.

In order for First Citizens to maintain satisfactory capital ratios, if, as of the closing date, SHB's Accumulated Other Comprehensive Income (Loss) is a loss greater than \$3,400,000, then First Citizens may, at the closing and in its sole discretion, increase the stock consideration and decrease the cash consideration so that the aggregate value of the shares of First Citizens stock, utilizing the First Citizens Measuring Price (as defined below), issued to the holders of SHB stock in connection with the merger is equal to up to 55% of the sum of (i) the aggregate value of the shares of First Citizens stock to be issued to the holders of SHB stock in connection with the merger utilizing the First Citizens Measuring Price and (ii) the aggregate cash value consideration. For the purposes of determining adjustments for Accumulated Other Comprehensive Income (Loss), the value of the stock consideration is determined by utilizing a value for the First Citizens common stock of \$42.60 per share and a value for the First Citizens Class A common stock of \$42.60 per share (the First Citizens Measuring Price). In the event that the stock consideration and cash consideration are adjusted for Accumulated Other Comprehensive Income (Loss), all references in the Merger Agreement to the stock consideration and the cash consideration will refer to the stock consideration and cash consideration as adjusted.

At the effective time of the merger, each share of SHB stock held in treasury of SHB or owned by any direct or indirect wholly owned subsidiary of SHB immediately prior to the effective time of the merger (other than shares of SHB stock held (i) directly or indirectly in trust accounts, managed accounts and the like or otherwise held in a fiduciary capacity for the benefit of third parties (any such shares, whether held directly or indirectly, being referred to herein as Trust Account Shares) and (ii) by SHB or any of its subsidiaries in respect of a debt previously contracted (any such shares of SHB stock, whether held directly or indirectly (the Treasury Shares)), will be canceled and will cease to exist, and no First Citizens stock or other consideration will be delivered in exchange therefor. Any shares of First Citizens stock that are owned by SHB or any of its subsidiaries (other than shares of First Citizens stock held (i) directly or indirectly in trust accounts, managed accounts and the like or otherwise held in a fiduciary capacity for the benefit of third parties, and (ii) by SHB or any of its subsidiaries in respect of a debt previously contracted) shall become treasury stock of First Citizens.

At the effective time of the merger, SHB shareholders, other than those who perfect dissenters' rights in accordance with Tennessee law, will have no further rights as SHB shareholders, other than the right to receive their per share merger consideration.

If, prior to the merger, shares of First Citizens stock are changed into a different number or class of shares as a result of any reclassification, recapitalization, split-up, combination, exchange of shares or readjustment, or if a stock dividend is declared on the shares of First Citizens stock with a record date prior to the merger, the stock portion of the merger consideration will be adjusted accordingly.

Treatment of Options

SHB has represented in the Merger Agreement that there are no outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of SHB common stock or SHB preferred stock or any other equity security or capital stock of SHB or any securities representing the right to purchase or otherwise receive any shares of SHB stock or any other equity security or capital stock of SHB.

Exchange of Certificates in the Merger

Before the effective time of the merger, First Citizens will appoint Computershare or another bank or trust company as an exchange agent to handle the exchange of SHB stock certificates for shares of First Citizens stock and the payment of cash for fractional shares. On or immediately following the meeting date of SHB shareholders, the exchange agent will send to each holder of record of shares of SHB stock as of the latest practicable date prior to the meeting of SHB shareholders a letter of transmittal, an election form and other appropriate materials for such holder to make a stock election, cash election, mixed election, or no election. SHB shareholders must return a completed election form to the exchange agent within 15 days of the mailing of the election form in order for the election form to be deemed timely. If no election form is received, or if

an election form is received more than 15 days following mailing, the applicable SHB shareholder's stock will be considered "non-election shares" and, in accordance with the terms of the Merger Agreement, such SHB shareholders will be entitled to receive cash consideration of \$12.25 and stock consideration of 0.2876 of a share of First Citizens stock (plus cash in lieu of any fractional shares), subject to adjustment as described in the Merger Agreement. The letter of transmittal will contain instructions explaining the procedure for surrendering SHB stock certificates. **You should not return certificates with the enclosed proxy card.**

SHB shareholders who surrender their stock certificates, together with a properly completed letter of transmittal and election form, will receive shares of First Citizens stock into which the shares of SHB stock were converted in the merger, cash, or a combination of both consistent with each shareholder's election form except as such election may be modified consistent with the Merger Agreement. After the effective date of the merger, each certificate that previously represented shares of SHB stock will only represent the right to receive the shares of First Citizens stock, cash, or a combination of both (and cash in lieu of fractions thereof) into which those shares of SHB stock have been converted.

If a certificate for SHB stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the Merger Agreement upon receipt of appropriate affidavit as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification.

Fractional Shares

No fractional shares of First Citizens common stock will be issued in connection with the merger. Instead, SHB shareholders will receive, without interest, a cash payment from First Citizens equal to \$42.60 multiplied by the fraction of a share of First Citizens stock to which the shareholder otherwise would be entitled.

Dividends and Distributions

Until SHB stock certificates are surrendered for exchange, any dividends or other distributions declared after the effective time with respect to First Citizens common stock into which shares of SHB stock may have been converted will accrue but will not be paid. First Citizens will pay to former SHB shareholders any unpaid dividends or other distributions without interest only after they have duly surrendered their SHB stock certificates. After the effective time of the merger, there will be no transfers on the stock transfer books of SHB of any shares of SHB common or preferred stock. If certificates representing shares of SHB common or preferred stock are presented for transfer after the completion of the merger, they will be cancelled and exchanged for the merger consideration into which the shares of SHB common or preferred stock represented by that certificate have been converted.

Effective Time

The merger will be completed when the articles of merger are filed with the Secretary of State of the State of Tennessee. First Citizens and SHB may, however, agree to a later time for completion of the merger and specify that time in the articles of merger. While we anticipate that the merger will be completed on or around October 1, 2014, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying any other conditions to the merger. There can be no assurances as to whether, or when, First Citizens and SHB will obtain all of the required approvals or complete the merger. If the merger is not completed on or before October 30, 2014, either First Citizens or SHB may terminate the Merger Agreement, unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the Merger Agreement to perform its covenants and agreements in the Merger Agreement. See THE MERGER AGREEMENT Conditions to the Completion of the Merger .

Representations and Warranties

The Merger Agreement contains a number of representations and warranties by SHB and First Citizens regarding aspects of their respective business, financial condition, structure and other facts pertinent to the merger that are customary for a transaction of this kind. They include, among other things, representations and warranties as to:

- the organization, existence, corporate power and authority of each company;
- the capitalization of each company;
- the absence of conflicts with and violations of law and various documents, contracts and agreements;
- the consents or approvals of or filings or registrations with any governmental authority or third party necessary in connection with the consummation of the merger;
- the filing of all reports, registrations and statements with applicable regulatory agencies;
- the fair presentation in all material respects of reports and financial statements provided to the other company;
- the absence of any broker's or finder's fees due in connection with the merger other than the brokers specifically identified in the Merger Agreement;
- the absence of any event or circumstance which is reasonably likely to have a material adverse effect;
- the absence of any proceedings pending, knowledge of any proceedings threatened, or knowledge of any basis for such proceedings to be brought;
- the absence of any knowledge that the merger will fail to qualify as a reorganization under Section 368(a) of the Code;
- the absence of any untrue statement of material fact or omission of a material fact necessary to make the statements contained in the Proxy Statement/Prospectus not misleading;

- the absence of regulatory actions pending, or to the knowledge of the companies, threatened against the companies or any of their respective subsidiaries by or before any governmental body or arbitrator having jurisdiction over the companies or their subsidiaries;
- the absence of any reason to believe required regulatory approvals will not be obtained;
- the adequacy and efficiency of insurance policies;
- compliance with the Bank Secrecy Act and Federal Community Reinvestment Act; and
- the accuracy of the statements contained in the Merger Agreement.

The Merger Agreement also contains an additional warranty solely by First Citizens regarding First Citizens having sufficient funds and capitalization to enable First Citizens to timely pay the cash consideration and consummate the transactions contemplated by the Merger Agreement.

The Merger Agreement also contains a number of additional representations and warranties solely by SHB regarding aspects of its business, financial condition, structure and other facts pertinent to the merger that are customary for a transaction of this kind. They include, among other things, representations and warranties as to:

- the timely filing and accuracy of tax returns and timely payment of taxes due and owing;
- compensation and the operation of all employee benefit plans in accordance with applicable law;
- the existence, performance and legal effect of certain contracts and commitments;
- the absence of any anti-takeover laws to which SHB or the merger may be subject;
- compliance with applicable environmental laws;
- loan portfolio matters;
- ownership of real and personal property;
- the absence of certain loans and related matters;
- matters related to the business and customer relationships of SHB and its subsidiaries;
- maintenance of accurate books and records;
- ownership of intellectual property rights and the absence of actions for infringement of intellectual property;
- lack of knowledge of any plan or intention on the part of any shareholder of SHB to make written demand for payment of the fair value of such holder's share of SHB stock; and
- participation in the SBLF Program.

Most of the representations and warranties of the parties will be deemed to be true and correct if such representations are true and correct in all material respects, or, to the extent qualified as to materiality or material adverse effect, shall be true and correct in all respects subject to the applicable materiality qualification or unless the totality of facts, circumstances or events inconsistent with the representations or warranties has had or is reasonably likely to result in losses, damages, liabilities, costs, expenses, judgments or fines in amount of \$750,000 or greater, or is materially adverse to (i) the business, condition, assets, properties, rights, prospects or results of operations of the party or its subsidiaries making the representations and warranties taken as a whole, or (ii) on the ability of the party and its subsidiaries to consummate the transactions contemplated by the Merger Agreement. In determining whether a material adverse effect has occurred or is reasonably likely, the parties will disregard any effects resulting from (1) any change in banking laws, rules or regulations of general applicability, (2) any change in GAAP or regulatory accounting principles applicable to banks or their holding companies generally, (3) any action or omission of a party or any subsidiary of that party taken with the express prior written consent of the other party, (4) general changes in national or Tennessee's economic, monetary, market or financial conditions, including changes in prevailing interest rates, inflation, credit markets or capital market conditions, or in the industries in which each party operates, except, in all cases, to the extent such changes disproportionately affect that party, (5) changes in global or national political conditions, including the outbreak or escalation of acts of terrorism, or (6) the public disclosure of the Merger Agreement or the transactions contemplated by the Merger Agreement.

Conduct of Business Prior to the Merger and Other Covenants

In the Merger Agreement, SHB agreed that, except as expressly contemplated or permitted by the Merger Agreement or with the prior written consent of First Citizens, SHB will carry on its business in the ordinary course consistent with past practice. Each of the parties also agreed to refrain from engaging in, or permitting its subsidiaries to engage in, certain activities which are described in the Merger Agreement.

SHB has agreed to refrain, among other things, from:

- declaring or paying any dividends on, or making other distributions in respect of, any of its capital stock during any period, other than its normal annual dividend consistent with past practices (not to exceed \$550,000) and dividends or distributions by a subsidiary of SHB to SHB;
- repurchasing, redeeming or otherwise acquiring (except for the redemption or repurchase of the Series D preferred stock) any shares of SHB stock or of any SHB subsidiary; splitting, combining or reclassifying any shares of SHB stock; or splitting, combining or reclassifying any shares of the capital stock of SHB or its subsidiaries; or issuing, delivering, selling or authorizing or proposing the issuance, delivery or sale of any shares of the SHB capital stock or any securities convertible into or exercisable for, or any rights, warrants or options to acquire any such shares;
- amending any provision of the charter, bylaws or similar governing documents of SHB;
- making capital expenditures in excess of \$100,000 in the aggregate;
- entering into any new line of business;
- making any equity investment in, or purchase outside of the ordinary course of business any property or assets of any other person, except as permitted by the Merger Agreement;
- taking any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in the Merger Agreement being or becoming untrue or in any of the conditions set forth in the Merger Agreement not being satisfied;
- changing its accounting methods, except as required by changes in GAAP or regulatory accounting principles;
- adopting, amending or terminating any employee benefit plan or any agreement, arrangement, plan or policy with one or more of its current or former directors, officers or employees;
- increasing in any manner the compensation or fringe benefits of any of its employees, directors or consultants other than in the ordinary course of business pursuant to policies currently in effect;
- granting or awarding any stock options, stock appreciation rights, restricted stock, restricted stock units, performance units or shares of any other equity or equity-based awards;
- selling, leasing, encumbering, assigning or otherwise disposing of or agreeing to sell, lease, encumber, assign or otherwise dispose of any of its material assets, properties or other rights or agreements other than as in the ordinary course of business consistent with past practice;
- incurring any indebtedness outside the ordinary course of business for borrowed money or assuming, guaranteeing, endorsing or otherwise as an accommodation becoming responsible for the obligations of any other individual, corporation or other entity;
- filing an application to relocate or terminate the operations of any banking office of it or any of its subsidiaries;
- entering into, creating, renewing, amending, extending or terminating or giving notice of a proposed renewal, amendment, extension or termination of, any contract, agreement or lease for goods, services or office space to which SHB or any of its subsidiaries is a party or by which SHB or any of its subsidiaries or their respective properties is bound involving aggregate payment obligations in excess of \$100,000 over the term of the agreement or contract, or amending or waiving the provisions of any confidentiality or standstill agreement to which SHB or any of its affiliates is a party as of the signing date of the Merger Agreement;
- taking any action or entering into any agreement that could reasonably be expected to jeopardize or materially delay the receipt of any required regulatory approvals;
- entering or committing to enter into any new loans outside the ordinary course of business, or in an amount in excess of \$1,000,000, or renewing, or committing to renewing, any existing loans in a principal amount in excess of \$1,000,000, without having provided prior written notice to First Citizens, or entering into new loan transactions subject to the requirements of Regulation O of the Federal Reserve Board in excess of \$250,000 in the aggregate without having provided prior written notice to First Citizens;

- directly or indirectly soliciting, initiating, accepting or participating in any discussion relating to any business combination involving it or any or any offer to acquire all of or a substantial portion of its assets; or
- agreeing or committing to do any of the above listed items.

SHB has agreed to, among other things:

- notify First Citizens in writing within two business days after receipt of any unsolicited acquisition proposal, provide reasonable detail as to the identity of the person making such acquisition proposal and immediately cease and cause to be terminated any existing activities, discussion, or negotiations with any person conducted that relate to any acquisition proposal;
- call and hold a meeting of its shareholders and, through its board of directors, to recommend the Merger Agreement and the transactions contemplated thereby for approval to its shareholders;
- furnish First Citizens with all information concerning SHB or any of its subsidiaries required for inclusion in any regulatory applications or SEC filings;
- furnish First Citizens with copies of written communications received by SHB or any of its subsidiaries from or delivered by any governmental entity in respect of the transactions contemplated by the Merger Agreement;
- use its commercially reasonable best efforts to obtain all third-party consents required under certain of its contracts; and
- use its commercially reasonable best efforts to cause the redemption of all outstanding Small Business Lending Fund securities.

First Citizens has agreed to refrain, among other things, from:

- declaring or paying any dividends on, or making other distributions in respect of, any of its capital stock during any period, other than its normal quarterly dividends consistent with past practices and dividends or distributions by a subsidiary of First Citizens to First Citizens;
- repurchasing, redeeming or otherwise acquiring any shares of First Citizens stock or any First Citizens subsidiary; or issuing, delivering, selling or authorizing or proposing the issuance, delivery or sale of any shares of the First Citizens capital stock or any securities convertible into or exercisable for, or any rights, warrants or options to acquire any such shares;
- amending any provision of the charter, bylaws or similar governing documents of First Citizens, other than the First Citizens Charter Amendment as described in the Merger Agreement and herein;
- taking any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in the Merger Agreement from being or becoming untrue or in any of the conditions set forth in the Merger Agreement not being satisfied;
- taking any action or entering into any agreement that could reasonably be expected to jeopardize or materially delay the receipt of any required regulatory approvals;
- changing its accounting methods, except as required by changes in GAAP or regulatory accounting principles; or
- agreeing or committing to do any of the above listed items.

First Citizens has agreed to, among other things:

- prepare and file all necessary regulatory filings and take all reasonable action to aid and assist in the consummation of the merger; and provide copies of such regulatory filings to SHB for which confidential treatment has not been requested;
- prepare and file with the SEC this Proxy Statement/Prospectus and any other applicable documents necessary to cause this Proxy Statement/Prospectus to become effective;
- furnish SHB with all information concerning First Citizens or any of its subsidiaries required for inclusion in any regulatory applications or SEC filings;
- furnish SHB with copies of written communications received by First Citizens or any of its subsidiaries from or delivered by any governmental entity in respect of the transactions contemplated by the Merger Agreement; and
- under certain conditions and time limits per the terms of the Merger Agreement, indemnify and hold harmless each present director and officer and certain affiliates of SHB;

The Merger Agreement also contains other agreements relating to the conduct of the parties prior to the merger, including, among other things, those requiring each party to:

- take all actions required to comply with any legal requirements to complete the merger;
- afford to the other party and its representatives access during normal business hours to all of such party's information concerning its business, properties and personnel as the other party may reasonably request;
- provide prompt notice of any event or circumstance that could cause any of its representations or warranties to be false or misleading in any material respect after the date of the signing of the Merger Agreement or that may cause any condition set forth in the Merger Agreement to not be satisfied in anticipation of the closing date of the merger;
- cooperate as necessary in conjunction with all approvals, filings and other steps necessary to cause the consummation of the merger;
- use reasonable best efforts not to, and use reasonable best efforts not to permit any subsidiaries to, take any action that would reasonably be expected to prevent the merger from qualifying as a reorganization with the meaning of 368(a) of the Code; and
- not to issue any publication, press release or public announcement with respect to the transactions contemplated by the Merger Agreement without the consent of the other party, except as otherwise required by law.

First Citizens has agreed to cause the employees of SHB and its subsidiaries, at the discretion of First Citizens, to either continue to participate in the SHB employee plans, or, to the extent permissible under the First Citizen plans, become eligible to participate in First Citizens' employee benefit plans in which similarly situated employees of First Citizens or its subsidiaries participate, to the same extent as similarly situated employees of First Citizens or its subsidiaries with some exceptions as provided in the Merger Agreement. With respect to each First Citizens plan that is an employee benefit plan, for purposes of determining eligibility to participate and entitlement benefits, service with SHB will be treated as service with First Citizens; provided, however, that such service will not be recognized to the extent that such recognition would result in a duplication or increase of benefits; provided, further, that past service credit shall not be taken into account for determining eligibility, vesting or accrual of benefits under any First Citizens defined benefit or nonqualified plan.

SHB has agreed to make stay-pay or retention bonus payments to such employees and officers of SHB and its subsidiaries as defined in the disclosure schedules to the Merger Agreement in an aggregate amount not to exceed \$150,000 for the purpose of encouraging such employees and officers to continue in the employ of SHB or its subsidiaries until the effective time of the merger.

Conditions to the Completion of the Merger

Completion of the merger is subject to various conditions. While it is anticipated that all of these conditions will be satisfied, there can be no assurance as to whether or when all of the conditions will be satisfied or, where permissible, waived.

The respective obligations of First Citizens and SHB to complete the merger are subject to the following conditions:

- approval by SHB's shareholders of the Merger Agreement;
- approval by First Citizens' shareholders of the First Citizens Charter Amendment authorizing an additional class of common stock to be issued to the shareholders of First Citizens (which approval was obtained July 16, 2014);
- receipt of all required regulatory approvals and expiration of all related statutory waiting periods;
- effectiveness of First Citizens' registration statement on Form S-4 of which this Proxy Statement/Prospectus constitutes a part;
- absence of any order, injunction or decree of a court or agency of competent jurisdiction which prohibits completion of the merger;
- accuracy of the other party's representations and warranties contained in the Merger Agreement, except, in the case of most of such representations and warranties, where the failure to be accurate would not be reasonably likely to have a material adverse effect on the party making the representations and warranties (see THE MERGER AGREEMENT - Representations and Warranties), and the performance by the other party of its obligations contained in the Merger Agreement in all material respects;
- absence of any statute, rule, regulation, order, injunction or decree which prohibits or makes illegal completion of the merger;
- the holders of less than 10% of the total outstanding share of SHB stock have exercised dissenters' rights with respect to the merger;
- the receipt of opinions of legal counsel to each company, dated the effective time of the merger, substantially to the effect that the merger will be treated as a reorganization under Section 368(a) of the Code and that First Citizens and SHB will each be a party to the reorganization;

- the required consents shall have been obtained and First Citizens shall have received evidence thereof;
- the required tail coverage shall have been obtained by both companies;
- First Citizens shall have succeeded to SHB's rights, interests and obligations pursuant to the indenture and the predecessor trustee shall have been replaced by the successor trustee; and
- each of the employment agreements, direct support agreements, and director/officer releases shall remain in full force and effect.

In addition, SHB has agreed to use its best efforts to cause the redemption of all outstanding preferred stock related to its participation in the SBLF program prior to the completion of the merger.

Director Support Agreements

In connection with the execution of the Merger Agreement, each of the directors of SHB and its subsidiaries executed director support agreements. The director support agreements require each director of SHB and its subsidiaries to use his or her reasonable best efforts to refrain from harming the goodwill of First Citizens, SHB, their respective subsidiaries and customer and client relationships. The director support agreements also include restrictions on disclosure of certain confidential information of First Citizens, SHB and their respective subsidiaries by the directors prior to the consummation of the merger or the termination of the Merger Agreement.

Employment Agreements

First Citizens has entered into agreements with J. Lee Stewart, Steve Ledbetter and Virginia Kibble. These agreements will be effective, if at all, upon consummation of the merger, and obligate First Citizens to cause its subsidiary bank (Southern Heritage Bank upon consummation of the merger) to employ Messrs. Stewart and Ledbetter and Ms. Kibble. These agreements include noncompetition, nonsolicitation and confidentiality obligations to Southern Heritage Bank, First Citizens and the affiliated entities that are controlled by First Citizens, and provide for annual salary and annual performance-based cash incentive bonuses and certain additional incentives from Southern Heritage Bank. The agreements of Messrs. Stewart and Ledbetter provide for supplemental executive retirement plan agreements as well.

Release by Officers and Directors of SHB

Upon execution of the Merger Agreement, all of the directors and certain officers of SHB executed release agreements. These agreements release SHB and its subsidiaries and their respective successors, assigns, and related parties from all claims arising from liabilities and obligations existing prior to the effective time of the merger, subject to certain limitations.

Termination of the Merger Agreement

The Merger Agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval of the merger by the SHB shareholders, as set forth in the Merger Agreement, including by mutual consent of First Citizens and SHB. In addition, the Merger Agreement may generally be terminated by either party:

- 60 days after the date on which any request or application for a requisite regulatory approval has been denied or withdrawn at the request or recommendation of the governmental entity which must grant such requisite regulatory approval, unless within the 60-day period following such denial or withdrawal a petition for rehearing or an amended application has been filed with the applicable governmental entity; provided, however, that no party shall have the right to terminate the Merger Agreement in this manner if such denial or request or recommendation for withdrawal is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe the covenants and agreements of such party as set forth in the Merger Agreement;
- if a governmental entity of competent jurisdiction issues a final nonappealable order enjoining or otherwise prohibiting the merger;
- if the merger is not completed on or before October 30, 2014, unless one or more regulatory approvals have not been received or the party seeking to terminate the Merger Agreement has failed to perform or observe the covenants and agreements of such party set forth in the Merger Agreement;
- if SHB shareholders fail to approve the Merger Agreement;
- if First Citizens shareholders fail to approve the required First Citizens Charter Amendment within 15 business days prior to the closing date of the merger (which approval was obtained on July 16, 2014); or

- if any of the representations or warranties provided by the other party set forth in the Merger Agreement become untrue or incorrect or the other party materially breaches its covenants or other agreements set forth in the Merger Agreement, and the representation or material breach is not cured within the prescribed time limit.

First Citizens may terminate the Merger Agreement if SHB's board of directors fails to recommend in the proxy statement that SHB's shareholders approve and adopt the Merger Agreement, SHB's board of directors has withdrawn, modified or changed, in a manner adverse to First Citizens, its approval or recommendation of the Merger Agreement and the transactions contemplated thereby, or SHB resolves to accept a competing acquisition proposal.

First Citizens may also terminate the Merger Agreement if any legal proceedings are filed or threatened relating to the consummation of the merger (but not relating to the adequacy of the merger consideration) or if any actions by a governmental authority are filed or threatened relating to the consummation of the merger.

Termination Fee

If the Merger Agreement is terminated by First Citizens because:

- SHB's board of directors fails to recommend in the proxy statement that SHB's shareholders approve and adopt the Merger Agreement;
- SHB's board of directors withdraws, modifies, or changes in any manner adverse to First Citizens, its recommendation or approval of the Merger Agreement or the merger; or
- SHB enters into any letter of intent, agreement in principle, or acquisition or similar agreement related to a competing acquisition proposal,

then, unless First Citizens is in material breach of any covenant or obligation under the Merger Agreement, SHB will be required to pay First Citizens a termination fee of \$1,000,000 in cash on demand.

If either First Citizens or SHB terminates the Merger Agreement, and within 12 months of termination of the Merger Agreement SHB enters into an acquisition agreement with a third party:

- if SHB takes any action that is intended or may reasonably be expected to result in any of its representations or warranties set forth in the Merger Agreement being or becoming untrue or materially breaching its covenants set forth in the Merger Agreement, and the representation or material breach is not cured within the prescribed time limit, and an acquisition proposal exists at the time of termination (the Superior Proposal);
- if SHB shareholders do not approve the Merger Agreement and a Superior Proposal exists at the time of termination,

then, unless First Citizens is in material breach of any covenant or obligation under the Merger Agreement, SHB will be required to pay First Citizens a termination fee of \$1,000,000 in cash at the time of the acceptance and execution of the Superior Proposal.

Indemnification

First Citizens has agreed to provide indemnification following the closing of the merger to the officers and directors of SHB and its subsidiaries for claims arising out of matters existing or occurring at or prior to the effective time of the merger, subject to restrictions imposed by law.

Amendment of the Merger Agreement

Subject to compliance with applicable law, the Merger Agreement may be amended by SHB and First Citizens by action taken or authorized by their respective boards of directors at any time. After any approval of the Merger Agreement by SHB shareholders, however, there may not be, without further approval of the SHB shareholders, any amendment of the Merger Agreement which reduces the amount or changes the form of consideration due under the Merger Agreement, other than as contemplated in the Merger Agreement. The Merger Agreement may not be amended except by an instrument in writing signed on behalf of First Citizens and SHB.

Waiver

Prior to the merger, First Citizens and/or SHB, as applicable, may extend the time frame for the performance of any of the obligations or other acts of the other party to the Merger Agreement, waive any inaccuracies in the representations or warranties of the other party contained in the Merger Agreement or waive compliance with any of the agreements or conditions of the other party contained in the Merger Agreement.

Expenses

Each party to the Merger Agreement will bear all expenses incurred by it in connection with the Merger Agreement and the merger.

Management and Operations Following the Merger

The officers and directors of each of First Citizens and First Citizens National Bank immediately prior to the effective time of the merger will continue to be the officers and directors of First Citizens and First Citizens National Bank, respectively, following the merger. Mr. J. Lee Stewart, the current president and chief executive officer of SHB, will be joining the board of directors of First Citizens and First Citizens National Bank. Certain other executive officers of SHB will be retained by First Citizens and may serve as officers of SHB's subsidiary bank but will not serve as executive officers of First Citizens. SHB will be merged with and into First Citizens, with First Citizens being the surviving corporation. The surviving corporation will operate under the name First Citizens Bancshares, Inc. and will continue to engage in the same business as prior to the merger.

Following the merger, the board of directors of First Citizens will consist of 19 members. Eighteen of these directors will be the current members of the board of directors of First Citizens. For more information on these individuals, see INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens. J. Lee Stewart, the current president and chief executive officer of SHB, will be joining the First Citizens board of directors as the 19th member. He will also be joining the First Citizens National Bank board of directors. If, prior to the closing date, Mr. Stewart becomes unavailable for any reason to serve as a member of the board of directors of First Citizens or First Citizens National Bank following the merger, the board of directors of First Citizens and First Citizens National Bank will continue with their current members. Biographical information with respect to Mr. Stewart is set forth below:

Mr. Stewart has more than 40 years of banking experience. He began his career in 1972 at American National Bank in Chattanooga as Business Development Officer and Credit Officer. In 1980, he joined First National Bank of Columbus, GA, to organize the bank's internal loan review functions, and later he was promoted to Vice President of Commercial Lending. In 1985, he joined First American National Bank in Bristol, Tennessee, as Senior Vice President for Commercial Lending and was promoted to City President in 1988 before being transferred in early 1990 to the Cleveland office of First American, where he served as City President until mid-1998.

Mr. Stewart is a graduate of Tennessee Wesleyan College, The National Commercial Lending Graduate School at the University of Oklahoma and the Stonier Graduate School of Banking. His civic activities include involvement with the United Way of Bristol, where he was awarded outstanding volunteer of the year in 1989, and the United Way of Bradley County, where he has served as a Campaign Co-Chairman and as Chairman of the Board. In 2000 he was recognized with the top United Way Volunteer award, the William F. Johnson Sr. Community Service Award. He was a member of the organizing committee of the Greater Cleveland Soccer Association and served as President of the group. He has been active in the Cleveland/Bradley Chamber of Commerce, serving as Treasurer and Chairman of the Board. In 2003 he received the Robert Varnell Leadership Award from the Cleveland/Bradley Chamber of Commerce. He has served on the boards of Cleveland Family YMCA, Junior Achievement and Cherokee Council of Boy Scouts. He is a founding member of the Bradley Sunrise Rotary Club and served as President.

Southern Heritage Bank will, as a result of the merger, become a wholly-owned subsidiary of First Citizens. Southern Heritage Bank will be managed by the same executive officers as existed prior to the merger. Southern Heritage Bank will take such actions that necessary or appropriate to appoint Jeffrey D. Agee and Judy Long to the board of directors of Southern Heritage Bank immediately following the effective time of the merger. For biographical information on Mr. Agee and Ms. Long, see INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens. Otherwise, the board of directors will also remain as it existed prior to the merger.

PRICE RANGE OF STOCK AND DIVIDENDS

First Citizens

There is no established public trading market for shares of First Citizens, which is inactively traded in private transactions. Between January 1, 2013 and July 31, 2014 there were trades for approximately 44,856 shares of First Citizens common stock, which was the only class of stock issued and outstanding prior to July 17, 2014. The per share sales price for these trades has ranged from a low of \$39.00 to a high of \$45.00.

SHB

There is no established public trading market for shares of SHB stock, which is inactively traded in private transactions. Since January 1, 2013, there have been trades for approximately 7,846 shares of SHB common stock, 3,181 shares of SHB Class A common stock and 1,734 shares of SHB Class B common stock. The per share sales price for these trades has ranged from a low of \$19.00 to a high of \$24.50.

INFORMATION ABOUT FIRST CITIZENS

Business

General

First Citizens is a financial holding company incorporated in Tennessee in 1982. Through its principal bank subsidiary, First Citizens National Bank, First Citizens conducts commercial banking and financial services operations primarily in West and Middle Tennessee. At December 31, 2013, First Citizens and its subsidiaries had total assets of \$1.18 billion and total deposits of \$969 million. First Citizens' principal executive offices are located at One First Citizens Place, Dyersburg, Tennessee 38024 and its telephone number is (731) 285-4410.

First Citizens, headquartered in Dyersburg, Tennessee, is the holding company for First Citizens National Bank and First Citizens (TN) Statutory Trusts III and IV. These trusts hold First Citizens' trust preferred debt and are not consolidated but are accounted for under the equity method in accordance with GAAP.

First Citizens National Bank is a diversified financial services institution that provides banking and other financial services to its customers. First Citizens National Bank provides customary banking services, such as checking and savings accounts, fund transfers, various types of time deposits, safe deposit facilities, financing of commercial transactions and making and servicing both secured and unsecured loans to individuals, firms and corporations. First Citizens National Bank is the only community bank in Tennessee recognized as a preferred lender for the Farm Service Agency of the U.S. Department of Agriculture (FSA), which provides emergency farm loans to help producers recover from production and physical losses caused by natural disasters or quarantine. First Citizens National Bank's agricultural services include operating loans as well as financing for the purchase of equipment and farmland. First Citizens National Bank's consumer lending department makes direct loans to individuals for personal, automobile, real estate, home improvement, business and collateral needs. First Citizens National Bank typically sells long-term residential mortgages that it originates to the secondary market without retaining servicing rights. First Citizens National Bank's commercial lending operations include various types of credit services for customers.

First Citizens National Bank has the following subsidiaries:

- First Citizens Financial Plus, Inc., a Tennessee bank service corporation wholly owned by First Citizens National Bank, provides licensed brokerage services that allow First Citizens National Bank to compete on a limited basis with numerous non-bank entities that provide such services to First Citizens' customer base. The brokerage firm operates three locations in West Tennessee.
- White and Associates/First Citizens Insurance, LLC was chartered by the State of Tennessee and is a general insurance agency offering a full line of insurance products including casualty, life and health, and crop insurance. First Citizens National Bank holds a 50% ownership in the agency, which is accounted for using the equity method. The insurance agency operates nine offices in Northwest Tennessee.
- First Citizens/White and Associates Insurance Company is organized and existing under the laws of the State of Arizona. Its principal activity is credit insurance. First Citizens National Bank holds a 50% ownership in the agency, which is accounted for using the equity method.
- First Citizens Investments, Inc. was organized and exists under laws of the State of Nevada. The principal activity of this entity is to acquire and sell investment securities as well as collect income from its portfolio. First Citizens Investments, Inc. owns the following subsidiaries:
- First Citizens Holdings, Inc., a Nevada corporation and wholly-owned subsidiary of First Citizens Investments, Inc., acquires and sells certain investment securities, collects income from its portfolio, and owns the following subsidiary:
- 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 First Citizens National Bank and provide First Citizens National Bank with an alternative vehicle for raising capital. First Citizens Holdings, Inc. owns 100% of the outstanding common stock and 60% of the outstanding preferred stock of First Citizens Properties, Inc. Directors, executive officers and certain employees and affiliates of First Citizens National Bank own approximately 40% of the preferred stock which is reported as Noncontrolling Interest in Consolidated Subsidiaries in the Consolidated Balance Sheets of First Citizens included elsewhere in this Proxy Statement/Prospectus.

The following table sets forth a comparative analysis of key balance sheet metrics of First Citizens as of December 31, for the years indicated (in thousands):

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	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total assets	\$1,174,472	\$1,178,325	\$1,053,549
Total deposits	968,530	964,839	855,672
Total net loans	572,418	541,497	519,660
Total equity capital	112,606	114,140	103,468

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The table below provides a comparison of First Citizens' performance to industry standards based on information provided by the Federal Reserve. According to the Bank Holding Company Performance Report as of December 31, 2013, First Citizens' peer group consisted of 344 bank holding companies with assets totaling \$1 billion to \$3 billion. The following table presents comparisons of First Citizens with its peers as indicated in Bank Holding Company Performance Reports for the years ended December 31 for each of the years indicated:

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>First Citizens</u>	<u>Peer(1)</u>	<u>First Citizens</u>	<u>Peer(2)</u>	<u>First Citizens</u>	<u>Peer(2)</u>
Net interest income to average assets	3.41%	3.33%	3.69%	3.38%	3.89%	3.46%
Net operating income to average assets	1.19%	0.88%	1.27%	0.79%	1.20%	0.57%
Net loan losses to average total loans	0.16%	0.25%	0.14%	0.59%	0.44%	0.94%
Tier 1 capital to average assets ⁽³⁾	9.40%	9.94%	9.17%	9.74%	9.21%	9.53%
Cash dividends to net income	33.94%	23.12%	32.00%	25.78%	33.54%	23.91%

(1) Peer information is provided for December 31, 2013.

(2) For the years ended December 31, 2012 and 2011, First Citizens' peer group consisted of approximately 350 bank holding companies with total asset size of \$1 to \$3 billion.

(3) Tier 1 capital to average assets is the ratio of core equity capital components to average total assets.

First Citizens and First Citizens National Bank employed a total of 285 full-time equivalent employees as of December 31, 2013. First Citizens and First Citizens National Bank are committed to hiring and retaining high quality employees to execute First Citizens' strategic plan.

First Citizens' website address is www.FirstCNB.com. First Citizens makes its Annual Reports and all amendments to those reports available free of charge by link on its website on the About Investor Relations webpage as soon as reasonably practicable. Shareholders may request a copy of the annual report without charge by contacting Laura Beth Butler, Secretary, First Citizens Bancshares, Inc., P. O. Box 370, Dyersburg, Tennessee 38025-0370.

Recapitalization

During a special meeting on July 16, 2014, First Citizens' shareholders voted on and approved the First Citizens Charter Amendment authorizing an additional class of common stock (Class A common stock) to be issued to certain shareholders of First Citizens. Upon the filing of the First Citizens Charter Amendment, each share of First Citizens common stock outstanding immediately prior to such filing owned by a shareholder of record who owned less than 300 shares of such common stock, was, by virtue of the filing of the First Citizens Charter Amendment and without any action on the part of the holders, reclassified as Class A common stock, on the basis of one share of Class A common stock per each share of common stock so reclassified. Each share of First Citizens common stock outstanding immediately prior to the filing of the First Citizens Charter Amendment owned by a shareholder of record who owned 300 or more shares of such common stock was not reclassified and continued to be classified as common stock. The First Citizens common stock continues to have unlimited voting rights. Each outstanding share of First Citizens Class A common stock has no voting rights, except as may be required by law.

Expansion

First Citizens, through its strategic planning process, intends to seek profitable opportunities that utilize excess capital and maximize income in Tennessee. In determining whether to acquire other banking institutions, First Citizens' objective is asset growth and diversification into other market areas. Management believes acquisitions and de novo branches afford First Citizens increased economies of scale within operation functions and better utilization of human resources. First Citizens only pursues an acquisition or opens a de novo branch if First Citizens' board of directors determines it to be in the best interest of First Citizens and its shareholders.

Competition

The business of providing financial services is highly competitive. In addition to competing with other commercial banks in its service area, First Citizens National Bank competes with savings and loan associations, insurance companies, savings banks, small loan companies, finance

companies, mortgage companies, real estate investment trusts, certain governmental agencies, credit card organizations, credit unions and other enterprises. In 1998, federal legislation allowed credit unions to expand their membership criteria. Expanded membership criteria coupled with existing tax-exempt status give credit unions a competitive advantage compared to banks.

First Citizens National Bank builds and implements strategic plans and commitments to address competitive factors in the various markets it serves. First Citizens National Bank's primary strategic focus is on obtaining and maintaining profitable customer relationships in all markets it serves. The markets demand competitive pricing, but First Citizens National Bank competes on high quality customer service that will attract and enhance loyal, profitable customers to First Citizens National Bank. Industry surveys have consistently revealed that 65 to 70% of customers leave banks because of customer service issues. Accordingly, First Citizens National Bank is committed to providing excellent customer service in all markets that it serves as a means of branding and distinguishing itself from other financial institutions. First Citizens National Bank utilizes advertising, including both newspaper and radio, and promotional activities to support its strategic plan.

First Citizens National Bank offers a typical mix of interest-bearing transaction, savings and time deposit products, as well as traditional non-interest bearing deposit accounts. First Citizens National Bank maintains branch offices in Dyer, Fayette, Lauderdale, Obion, Shelby, Tipton, Weakly and Williamson counties in Tennessee and is a leader in deposit market share compared to competitors in Dyer, Fayette, Lauderdale, Obion, Tipton and Weakley counties. First Citizens National Bank has consistently been a leader in market share of deposits in these markets for several years. First Citizens National Bank's market share has been 19.25% to 19.84% in Dyer, Fayette, Lauderdale, Obion, Tipton and Weakley Counties combined and in excess of 62% in Dyer County for the last three years. The following market share information for these counties (banks only, deposits inside of market) is from the Deposit Market Share Report, as of June 30, 2013, prepared annually by the FDIC (dollars in thousands):

<u>Bank Name</u>	<u>Number of Offices</u>	<u>Total Deposits</u>	<u>Market Share %</u>
First State Bank	15	\$799,386	23.17%
FCNB	13	\$684,483	19.84%
Bank of Fayette Co	6	\$242,382	7.03%
Regions Bank	9	\$214,709	6.22%
Somerville Bank & Trust Co	5	\$178,029	5.16%
Bank of Ripley	4	\$177,158	5.14%
Bancorpsouth Bank	5	\$142,022	4.12%
Commercial Bank & Trust Co	2	\$121,648	3.53%
Reelfoot Bank	4	\$111,027	3.22%
Security Bank	6	\$106,924	3.10%
Patriot Bank	2	\$98,525	2.86%
Insouth Bank	2	\$88,794	2.57%
Clayton Bank & Trust	4	\$74,641	2.16%
First South Bank	2	\$73,138	2.12%
Bank of Gleason	1	\$66,828	1.94%
Bank of Halls	2	\$55,341	1.60%
Lauderdale County Bank	2	\$43,122	1.25%
Greenfield Banking Co.	2	\$41,781	1.21%
Gates Banking & Trust	1	\$36,346	1.05%
Brighton Bank	1	\$35,818	1.04%
All others	8	\$57,673	1.67%
Total	96	\$ 3,449,775	100.00%

First Citizens National Bank also competes in the Shelby County and Williamson County markets. Because the size and composition of these two markets is much larger and more diverse than the other markets in which First Citizens National Bank operates, Shelby and Williamson Counties are excluded from the above table. First Citizens National Bank's market share in Shelby County was 1.02% and 0.99% as of June 30, 2013 and 2012, respectively. First Citizens National Bank's market share in Williamson County was 1.24% and 0.30% as of June 30, 2013 and 2012, respectively.

Regulation and Supervision

This section provides a brief summary of the regulatory environment in which First Citizens and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations, including those statutes specifically mentioned herein. Changes in applicable laws, and their application by regulatory and law enforcement agencies, cannot necessarily be predicted, but could have a material effect on the business and results of First Citizens and its subsidiaries.

First Citizens is a financial holding company under the Bank Holding Company Act and is subject to supervision and examination by the Federal Reserve. As a financial holding company, First Citizens is required to file annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve also conducts examinations of First Citizens. Federal Reserve approval must be obtained before First Citizens may:

- Acquire ownership or control of any voting securities of a bank or bank holding company where the acquisition results in First Citizens owning or controlling more than 5% of a class of voting securities of that bank or bank holding company; or
- Acquire substantially all of the assets of a bank or bank holding company or merge with another bank holding company.

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

First Citizens National Bank is a national banking association and a member of the Federal Reserve System. First Citizens National Bank's operations are subject to the regulations of the Office of the Comptroller of the Currency (the OCC), the Federal Reserve and the FDIC. The OCC regulates and examines First Citizens National Bank and has the authority under the Financial Institutions Supervisory Act of 1966 to prevent First Citizens National Bank from engaging in unsafe or unsound practices in conducting its business. Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

Federal Deposit Insurance Corporation Improvement Act

First Citizens and First Citizens National Bank are subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Among other things, FDICIA provides a framework for a system of supervisory actions based primarily on the capital levels of financial institutions. FDICIA identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements. Capital is measured in two Tiers. Tier 1 capital consists of common shareholders' equity and qualifying non-cumulative perpetual preferred stock, less goodwill and certain other intangible assets, and Tier 2 capital consists of general allowance for losses on loans and leases, hybrid debt capital instruments and all or a portion of other subordinated capital debt, depending upon the remaining term to maturity. Total capital is the sum of Tier 1 and Tier 2 capital. For an insured financial institution to be classified as well capitalized, the Tier 1 capital, total capital and Tier 1 leverage capital (Tier 1 capital divided by the difference of total assets less goodwill) ratios must be at least 6%, 10% and 5%, respectively. First Citizens National Bank exceeded the criteria for the well capitalized category at December 31, 2013. First Citizens is required to comply with the risk-based capital guidelines established by the Federal Reserve and with other tests relating to capital adequacy that the Federal Reserve adopts from time to time. See - Basel III Capital Rules - below.

FDICIA provides for a risk-based deposit insurance premium structure for insured financial institutions. The FDIC generally provides deposit insurance up to \$250,000 per customer per institution for depository accounts held at insured financial institutions. Substantially all of the deposits of First Citizens National Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) established the independent Consumer Financial Protection Bureau (the CFPB), which is tasked with protecting consumers from unfair, deceptive and abusive financial products and practices. The Dodd-Frank Act also created the Financial Stability Oversight Council to focus on identifying, monitoring and addressing systemic risks in the financial system. The Financial Stability Oversight Council is tasked with recommending increasingly strict rules for capital, leverage and other requirements based on a company's size and complexity. The Dodd-Frank Act required the implementation of the Volcker Rule for banks and bank holding companies, which prohibits, with certain limited exceptions, proprietary trading and investment in and sponsorship of hedge funds and private equity funds, and generally otherwise limits relationships with such funds. The Dodd-Frank Act also includes provisions that, among other things, reorganize bank supervision and strengthen the Federal Reserve.

The Dodd-Frank Act eliminated many of the remaining regulations that limited the ability of a bank to open branches in different states. The Dodd-Frank Act included savings associations and industrial loan companies, as well as banks, in the nationwide deposit limitation. Consequently, no acquisition of any financial institution can be approved if the effect of the acquisition would be to increase the acquirer's nationwide deposits to more than 10% of all deposits. In addition, pursuant to the Durbin Debt Interchange Amendment to the Dodd-Frank Act (the Durbin Amendment), the Dodd-Frank Act requires fees charged for debit card transactions, commonly referred to as interchange fees, to be both reasonable and proportional to the cost incurred by the card issuer. Under the Durbin Amendment, the Federal Reserve's final rule set a base interchange rate of \$0.21 per transaction, plus an additional five basis points of the transaction cost for fraud charges. An upward adjustment of no more than \$0.01 on the debit interchange fee is also allowed for implementing certain fraud prevention standards. It should be noted that these pricing determinations are the subject of active litigation to which the Federal Reserve is a party. Additionally, issuers are required to include two unaffiliated networks for routing debit transactions, one that is signature-based and one that is personal identification number (PIN) based.

Further, the Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other covered financial institution that provides an insider or other employee with

excessive compensation or could lead to a material financial loss to such institution. Prior to the implementation of the Dodd-Frank Act, the bank regulatory agencies promulgated the Interagency Guidance on Sound Incentive Compensation Policies, which requires financial institutions to establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior.

In addition, the Dodd-Frank Act requires a financial holding company to act as a source of financial strength to its subsidiary banks and commit resources to support each such subsidiary. This support may be required at times when a financial holding company may not be able to provide such support.

Gramm-Leach-Bliley Act

Financial holding company powers relate to financial activities that are determined by the Federal Reserve to be financial in nature, incidental to an activity that is financial in nature or complementary to a financial activity (provided that the complementary activity does not pose a safety and soundness risk). The Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLBA) expressly characterizes certain activities as financial in nature, including lending activities, underwriting and selling insurance, providing financial or investment advice, securities underwriting, dealing and making markets in securities and merchant banking. In addition, the GLBA prohibits financial institutions such as First Citizens National Bank from disclosing non-public personal financial information to third parties unless customers have the opportunity to opt out of the disclosure.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under the CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving financial holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2013, First Citizens had a satisfactory rating under the CRA.

USA PATRIOT Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as extended and revised by the PATRIOT Improvement and Reauthorization Act of 2005 (the PATRIOT Act), requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign financial institutions; and (iii) avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign financial institutions that do not have a physical presence in any country. The Patriot Act also requires that financial institutions follow certain minimum standards to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

Federal Monetary Policies

Monetary policies of the Federal Reserve have a significant effect on operating results of bank holding companies and their subsidiary banks. The Federal Reserve regulates the national supply of bank credit by open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits.

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

Basel III Capital Rules

In July 2013, the Federal Reserve published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules implement the Basel Committee on Banking Supervision's December 2010 framework known as Basel III for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules increase minimum requirements for both the quantity and quality of capital held by banking organizations. The Basel III Capital Rules include a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% and a common equity Tier 1 capital conservation

buffer of 2.5% of risk-weighted assets. The Basel III Capital Rules also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. Beginning January 1, 2015, First Citizens National Bank must be compliant with revised minimum regulatory capital ratios and is in the process of beginning the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the Basel III Capital Rules.

Limitations on the Payment of Dividends

First Citizens is a legal entity that is separate and distinct from its subsidiaries. The primary source of funds for dividends paid to First Citizens shareholders has been dividends paid to First Citizens by First Citizens National Bank. Various federal and state laws limit the amount of dividends that First Citizens National Bank may pay to First Citizens without regulatory approval. Payments of dividends to First Citizens by First Citizens National Bank are subject to the restrictions set forth in the National Bank Act which requires the approval of the OCC if the total of all dividends declared by a national bank in any calendar year exceeds the net income of that national bank for that year combined with the national bank's retained net income for the preceding two calendar years. Under FDICIA, First Citizens National Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit First Citizens National Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of First Citizens National Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4, on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve's view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends. Further, in the current financial and economic environment, the Federal Reserve has indicated that bank and financial holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Usury Laws

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

Tennessee usury laws permit interest at an annual rate of four percentage points above the average prime loan rate for the most recent week for which such an average rate has been published by the Federal Reserve, or 24%, whichever is less. The Most Favored Lender Doctrine permits national banks to charge the highest rate permitted to be charged by any state lender.

Specific usury laws may apply to certain categories of loans, such as the limitation placed on interest rates on single pay loans of \$1,000 or less with a term of one year or less. Rates charged on installment loans, including credit cards as well as other types of loans, may be governed by the Industrial Loan and Thrift Companies Act.

Other Legislation

The activities of First Citizens and its subsidiaries are also subject to regulation under various federal laws and regulations thereunder, including the Riegle-Neal Interstate Banking and Branching Efficiency Act, the Truth-in-Lending Act, the Truth-in-Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act, the Currency and Foreign Transactions Reporting Act, the National Flood Insurance Act, the Flood Protection Act, the Real Estate Settlement Procedures Act, the Bank Secrecy Act, laws and regulations governing unfair, deceptive, and/or abusive acts and practices, the Servicemembers Civil Relief Act, the Housing and Economic Recovery Act, and the Credit Card Accountability Act, among others, as well as various state laws.

Insurance Activities

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

Properties

First Citizens National Bank has 17 full-service bank financial centers, two drive-through only branches and 28 ATMs spread over eight Tennessee counties. A list of available banking locations and hours is maintained on First Citizens National Bank's website (www.FirstCNB.com) under the Locations section. First Citizens National Bank owns and occupies the following properties:

- First Citizens National Bank's main branch and executive offices are located in a six-story building at One First Citizens Place (formerly 200 West Court), Dyersburg, Dyer County, Tennessee. This property also includes the Banking Annex, which has an address of 215-219 Masonic Street. The Banking Annex houses First Citizens National Bank's operations, information technology, call center, bank security and mail departments;
- First Citizens National Bank's downtown drive-through branch is located at 117 South Church Street, Dyersburg, Dyer County, Tennessee, and is a remote motor bank with six drive-through lanes and a drive-up ATM lane;
- The Green Village Financial Center, located at 710 U.S. 51 Bypass adjacent to the Green Village Shopping Center in Dyersburg, Dyer County, Tennessee, is a full-service banking facility;
- The Newbern Financial Center, a full-service facility, is located at 104 North Monroe Street, Newbern, Dyer County, Tennessee;

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- The Industrial Park Financial Center located at 2211 St. John Avenue, Dyersburg, Dyer County, Tennessee is a full-service banking facility;
- The Ripley Financial Center is a full-service facility located at 316 Cleveland Street in Ripley, Lauderdale County, Tennessee;

- The Troy Financial Center is a full-service banking facility located at 220 East Harper Street in Troy, Obion County, Tennessee;
- The Union City Financial Center is a full-service banking facility located at 100 W. Washington Avenue in Union City, Obion County, Tennessee.
- The Martin Financial Center is a full-service facility located at 200 University Avenue, Martin, Weakley County, Tennessee;
- The Munford Financial Center is a full-service facility located at 1426 Munford Avenue in Munford, Tipton County, Tennessee. In addition, a drive-through facility is located at 1483 Munford Avenue, also in Munford;
- The Atoka Financial Center is a full-service facility located at 123 Atoka-Munford Avenue, Atoka, Tipton County, Tennessee;
- The Millington Financial Center is a full-service branch facility located at 8170 Highway 51 N., Millington, Shelby County, Tennessee;
- The Bartlett Financial Center is a full-service facility located at 7580 Highway 70, Bartlett, Shelby County, Tennessee;
- The Arlington Financial Center is a full-service facility located at 5845 Airline Road, Arlington, Shelby County, Tennessee;
- The Oakland Financial Center is a full-service facility located at 7285 Highway 64, Oakland, Fayette County, Tennessee;
- The Collierville Financial Center is a full-service facility located at 3668 South Houston Levee in Collierville, Shelby County, Tennessee;
- The Franklin Financial Center is a full-service facility located at 1304 Murfreesboro Road in Franklin, Williamson County, Tennessee;
- The Cool Springs Financial Center is a full-service facility located at 9045 Carothers Parkway, Franklin, Williamson County, Tennessee;
- A full-service facility located on Union University Drive in Jackson, Madison County, Tennessee is currently under construction with an anticipated opening date of October 2014; and
- A lot located on Christmasville Cove in Jackson, Madison County, Tennessee, that was purchased in 2007 on which First Citizens expects to construct a full-service facility in the next three to five years.

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

Legal Proceedings

First Citizens and its subsidiaries are defendants in various lawsuits arising in of the normal course of business. In the opinion of management, the ultimate resolution of such matters should not have a material adverse effect on First Citizens consolidated financial condition or results of operations. Litigation is, however, inherently uncertain, and First Citizens cannot make assurances that it will prevail in any of these actions, nor can it estimate with reasonable certainty the amount of damages that it might incur.

Market for First Citizens Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Holdings and Market Information

As of June 30, 2014, there were approximately 1,062 record shareholders of First Citizens common stock. First Citizens common stock is not listed or traded on any established public trading market. The table below shows the quarterly range of high and low sale prices for First Citizens common stock during the fiscal years 2013 and 2012 and the first and second quarters of 2014. These sale prices represent known transactions reported to First Citizens and do not necessarily represent all trading transactions for the periods.

<u>Year</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
2014	First	\$44.00	\$44.00
	Second	\$45.00	\$44.00
2013	First	39.00	39.00
	Second	42.60	39.00
	Third	42.60	42.60
	Fourth	42.60	42.60
2012	First	36.00	36.00

Second	37.80	36.00
Third	37.80	37.80
Fourth	39.00	37.80

Dividends

First Citizens paid aggregate dividends per share of First Citizens common stock of \$1.30 in 2013, \$1.20 in 2012 and \$0.25 in each of the first and second quarters of 2014. The following quarterly dividends per share of common stock were paid for 2014, 2013 and 2012:

<u>Quarter</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
First Quarter	\$0.25	\$0.25	\$0.25
Second Quarter	\$0.25	0.25	0.25
Third Quarter	-	0.25	0.25
Fourth Quarter	-	0.55	0.45
Total	\$0.50	\$1.30	\$1.20

Future dividends will depend on First Citizens' earnings, financial condition, regulatory capital levels and other factors, which First Citizens board of directors considers relevant. See the section above entitled "Business Regulation and Supervision" and Note 16 to First Citizens Consolidated Financial Statements included elsewhere in this Proxy Statement/Prospectus for more information on restrictions and limitations on First Citizens' ability to pay dividends.

Issuer Purchases of Equity Securities

First Citizens had no publicly announced plans or programs for purchase of stock during 2013 or 2014. There were no shares of First Citizens common stock repurchased during the year ended December 31, 2013. During the six months ended June 30, 2014, First Citizens repurchased 1,081 shares of its own common stock for an aggregate cost of \$47,564.00 and weighted average per share cost of \$44.00.

Unregistered Sales of Securities

There were no unregistered sales of First Citizens' common stock in 2013, 2012 or the six months ended June 30, 2014.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Years Ended December 31, 2013 and 2012

Executive Overview

For the year ended December 31, 2013, First Citizens produced stable core earnings that resulted in a return on equity of 12.06% compared to 12.21% for 2012. Net income for 2013 totaled \$13.8 million compared to \$13.5 million in 2012. Earnings per share were \$3.83 for the year ended December 31, 2013 compared to \$3.75 for the year ended December 31, 2012. The combination of strong net interest margin and non-interest income streams with relatively low provision for loan losses provided opportunity for strategically controlled growth in expenses in areas such as investment in salaries and benefits, data security, and brand awareness.

Net interest income totaled \$37.9 million in 2013 compared to \$36.7 million in 2012. Provision for loan losses totaled approximately \$775,000 in 2013 compared to approximately \$650,000 in 2012. Gain on sale of available-for-sale securities totaled \$1.3 million compared to approximately \$680,000 in 2012. Losses on the sale or write-down of other real estate owned totaled approximately \$593,000 in 2013 compared to \$1.2 million in 2012.

Total equity decreased from \$114.1 million as of December 31, 2012 to \$112.6 million as of December 31, 2013. The decline in total equity is due to a \$10.7 million decrease in accumulated other comprehensive income. Accumulated other comprehensive income decreased due to a decrease of \$10.7 million in unrealized appreciation (net of tax) on the available-for-sale securities portfolio compared to prior year. Most of this decrease in accumulated other comprehensive income was offset by growth in retained earnings. Retained earnings increased \$9.1 million in

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2013 as a result of increased undistributed net income. Return on average equity was 12.06% in 2013 compared to 12.21% for 2012 and 12.22% for 2011. Return on assets (ROA) was 1.19%, 1.25% and 1.18% for 2013, 2012 and 2011, respectively. For 2013, First Citizens' return on equity of 12.06% and ROA of 1.19% exceeded the same measures for the Southeast Public Bank Peer Report, as produced by Mercer Capital's Financial Institutions Group (the Peer Report), which reported an average return on equity of 7.08% and an average ROA of 0.85% for 2013. The Peer Report provides market pricing and performance data on publicly traded banks in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Missouri, and Tennessee.

In 2013, First Citizens' dividend payout ratio was 33.9% compared to 32.0% in 2012. The dividend payout ratio has trended in the range of 30% to 40% over the past five years as part of First Citizens' strategic effort to balance growth and preservation of capital with providing a competitive dividend yield. Dividend yield was 3.33% per year in both 2013 and 2012 and is consistent with historical dividend yields in excess of 3.00%. The Peer Report reported an average dividend yield of 1.42% for 2013.

Maintaining a stable net interest margin and manageable interest rate risk profile is perpetual strategic priority for many financial institutions, including First Citizens National Bank. First Citizens' net interest margin has been in the range of 3.75% to 4.10% over the past ten years and was 3.83% in 2013 and 4.01% in 2012. As of December 31, 2013, First Citizens' interest rate risk position was liability sensitive. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk.

The efficiency ratio is a measure of non-interest expense as a percentage of total revenue. First Citizens computes the efficiency ratio by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income. This is a non-GAAP financial measure, which management believes provides investors with important information regarding First Citizens' operational efficiency. Comparison of First Citizens' efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently. The First Citizens' efficiency ratios for the years ended December 31, 2013, and 2012 were 61.33% and 60.23%, respectively.

The tangible common equity ratio is a non-GAAP measure used by management to evaluate capital adequacy. Tangible common equity is total equity less net accumulated other comprehensive income, goodwill and deposit-based intangibles. Tangible assets are total assets less goodwill and deposit-based intangibles. The tangible common equity ratio was 8.53% as of December 31, 2013 compared to 7.71% as of December 31, 2012.

A reconciliation of the non-GAAP measures of efficiency ratio and tangible common equity ratio is provided as follows (dollars in thousands):

	<u>At or for the Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Efficiency ratio:			
Net interest income ⁽¹⁾	\$ 40,332	\$ 39,047	\$ 38,428
Non-interest income ⁽²⁾	14,030	12,454	11,625
Total revenue	54,362	51,501	50,053
Non-interest expense	33,341	31,017	30,072
Efficiency ratio	61.33%	60.23%	60.08%
Tangible common equity ratio:			
Total equity capital	\$ 112,606	\$ 114,140	\$ 103,468
Less:			
Accumulated other comprehensive income	(361)	10,291	8,801
Goodwill	13,651	13,651	11,825
Other intangible assets	384	426	35
Tangible common equity	\$ 98,932	\$ 89,772	\$ 82,807
Total assets	\$ 1,174,472	\$ 1,178,325	\$ 1,053,549
Less:			
Goodwill	13,651	13,651	11,825
Other intangible assets	384	426	35
Tangible assets	\$ 1,160,437	\$ 1,164,248	\$ 1,041,689
Tangible common equity ratio	8.53%	7.71%	7.95%

(1) Net interest income includes interest and rates on securities that are non-taxable for federal income tax purposes that are presented on a taxable equivalent basis based on a federal statutory rate of 34%.

(2) Non-interest income is presented net of any credit losses from other-than-temporary impairment losses on available-for-sale securities recognized against earnings for the years presented.

Critical Accounting Policies

The accounting and reporting of First Citizens and its subsidiaries conform to GAAP and follow general practices within the industry. Preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management believes that First Citizens' estimates are reasonable under the facts and circumstances based on past experience and information supplied from professionals, regulators and others. Accounting estimates are considered critical if (i) management is required to make assumptions or judgments about items that are highly uncertain at the time estimates are made and (ii) different estimates reasonably could have been used during the current period, or changes in such estimates are reasonably likely to occur from period to period, that could have a material impact on presentation of First Citizens' Consolidated Financial Statements.

The development, selection and disclosure of critical accounting policies are discussed and approved by the Audit Committee of First Citizens National Bank's board of directors. Because of the potential impact on the financial condition or results of operations and the required subjective or complex judgments involved, management believes its critical accounting policies consist of the allowance for loan losses, fair value of financial instruments and goodwill.

There are currently no new accounting standards that have been issued that will have a significant impact on the First Citizens' financial position, results of operations or cash flows upon adoption.

- Allowance For Loan Losses

The allowance for loan losses represents management's best estimate of inherent losses in the existing loan portfolio. Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb reasonably estimated and probable losses within the portfolio. Management believes the allowance for loan losses estimate is a critical accounting estimate because: (i) changes can materially affect provision for loan loss expense on the income statement; (ii) changes in the borrower's cash flows can impact the reserve; and (iii) management makes estimates at the balance sheet date and also into the future in reference to the reserve. While management uses the best information available to establish the allowance for loan losses, future adjustments may be necessary if economic or other conditions change materially. In addition, as a part of their examination process, federal regulatory agencies periodically review First Citizens National Bank's loans and allowances for loan losses and may require First Citizens National Bank to recognize adjustments based on their judgment about information available to them at the time of their examination.

- Fair Value of Financial Instruments

Certain assets and liabilities are required to be carried on the balance sheet at fair value. Further, the fair value of financial instruments must be disclosed as a part of the notes to the consolidated financial statements for other assets and liabilities. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, the shape of yield curves and the credit worthiness of counterparties.

Fair values for the majority of First Citizens National Bank's available-for-sale investment securities are based on observable market prices obtained from independent asset pricing services that are based on observable transactions but not quoted market prices.

Fair value of derivatives (if any) held by First Citizens National Bank is determined using a combination of quoted market rates for similar instruments and quantitative models based on market inputs including rate, price and index scenarios to generate continuous yield or pricing curves and volatility factors. Third-party vendors are used to obtain fair value of available-for-sale securities and derivatives (if any).

- Goodwill

First Citizens' policy is to review goodwill for impairment at the reporting unit level on an annual basis unless an event occurs that could potentially impair the goodwill amount. Goodwill represents the excess of the cost of an acquired entity over fair value assigned to assets and liabilities. Management believes accounting estimates associated with determining fair value as part of the goodwill test are critical because estimates and assumptions are made based on prevailing market factors, historical earnings and multiples and other contingencies.

Financial Condition

Total assets were flat as of December 31, 2013 compared to December 31, 2012, at \$1.18 billion, as loan growth outpaced deposit growth for the first time in the past five years. Loan growth of 5.7% or \$31 million was funded primarily through existing cash and cash flows from the investment portfolio while deposits and borrowings each grew less than 1.0% during 2013.

Deposits totaled \$969 million as of December 31, 2013 compared to \$965 million as of December 31, 2012 and accounted for more than 90% of total funding for First Citizens. Capital decreased approximately 1.3% when comparing December 2013 to December 2012 as a result of an offsetting increase in undistributed net income of \$9.1 million and a decrease of \$10.6 million in accumulated other comprehensive income. The decrease in accumulated other comprehensive income is due to a reduction in unrealized gains on the available-for-sale investment portfolio. Unrealized gains on investments retreated significantly in 2013 relative to the rise in 10-year Treasury yields, which were 3.04% and 1.78% as of December 31, 2013 and 2012, respectively.

• Investment Securities Analysis

The following table presents the composition of total investment securities as of December 31 for the last five years (in thousands):

	2013	2012	2011	2010	2009
U.S. Treasury and government agencies	\$321,703	\$346,452	\$249,240	\$191,443	\$ 158,458
State and political subdivisions	134,751	119,143	115,634	102,450	89,211
All other	71	824	591	930	2,122
Total investment securities	\$456,525	\$466,419	\$365,465	\$294,823	\$ 249,791

In 2013, investment securities decreased \$9.9 million primarily due to a \$24.7 million decrease in agency mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs) and a \$15.6 million increase in municipal securities. Changes in the portfolio were primarily driven by incremental purchases of new agency and municipal debt securities which were offset by an overall decrease of \$17.3 million in net unrealized appreciation (pre-tax) on the portfolio.

The allocation to tax-exempt municipal securities as a percent of the total portfolio was 29.5% as of December 31, 2013 compared to 25.5% and 31.6% as of December 31, 2012 and 2011, respectively. This range of ratios is consistent with recent allocations, as First Citizens has strategically maintained approximately one-third of its portfolio in the tax-exempt municipal sector for at least the last ten years.

● Maturity and Yield on Securities

Contractual maturities on investment securities generally vary from five to 15 years. However, the expected remaining lives of investment securities are expected to be much shorter due to anticipated payments from the U.S. Treasury and government agency securities. These securities comprised 70% of the investment security portfolio at December 31, 2013 and are primarily amortizing payments that provide stable monthly cash inflows of principal and interest payments. The following table presents carrying amount, contractual maturities and yields by category for debt securities as of December 31, 2013 (dollars in thousands):

	Maturing Within One Year		Maturing After One Year Within Five Years		Maturing After Five Years Within Ten Years		Maturing After Ten Years		
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Total</u>
U.S. Treasury and government agencies ⁽¹⁾	\$2	4.00%	\$5	2.07%	\$6,521	3.71%	\$315,175	2.32%	\$321,703
State and political subdivisions ⁽²⁾	2,782	7.04%	14,868	6.50%	55,290	5.38%	61,811	6.07%	134,751
All other	-		-		-		-		-
Total debt securities	2,784		14,873		61,811		376,986		456,454
Equity securities	-		-		-		71	1.25%	71
Total	\$2,784		\$ 14,873		\$ 61,811		\$376,986		\$ 456,525

(1) Of this category, 98% of the total consisted of MBS and CMOs, which are presented based on contractual maturities (with 86% of the total for this category in the Maturing After Ten Years category). However, the remaining lives of such securities are expected to be much shorter due to anticipated payments.

(2) Yields are presented on a tax-equivalent basis using a federal statutory rate of 34%.

● Held-To-Maturity and Available-For-Sale Securities

First Citizens held no securities in the held-to-maturity or trading categories as of December 31, 2013 or 2012. The following table presents amortized cost and fair value of available-for-sale securities as of December 31, 2013 (in thousands):

	Amortized Cost	Fair Value
U.S. government agencies and corporate obligations	\$326,272	\$321,703
Obligations of states and political subdivisions	130,813	134,751
U.S. securities:		
Equity securities	23	71
Total	\$457,108	\$456,525

In addition to the amounts presented above, First Citizens National Bank held \$5.7 million in FHLB and Federal Reserve Bank stock at both December 31, 2013 and 2012, recorded at cost. Equity securities listed above consisted primarily of shares of Fannie Mae and Freddie Mac

perpetual preferred stock.

Objectives of First Citizens National Bank's investment portfolio management are to provide safety of principal, provide adequate liquidity, insulate GAAP capital against excessive changes in market value, insulate earnings from excessive change and optimize investment performance. Investments also serve as collateral for government, public funds and large deposit accounts that exceed FDIC-insured limits. Pledged investments at December 31, 2013 and 2012 had a fair market value of \$206 million and \$204 million, respectively. The average expected life of the investment securities portfolio was 4.6 years and 4.7 years as of December 31, 2013, and 2012, respectively. Portfolio yields (on a tax equivalent basis) were 3.35% as of December 31, 2013 compared to 3.41% as of December 31, 2012.

First Citizens classifies investments, based on intent, into trading, available-for-sale and held-to-maturity categories in accordance with GAAP. First Citizens held no securities in the trading or held-to-maturity categories for any of the last five years and does not expect to hold any such securities in 2014. First Citizens' investment strategy is to classify most of the securities portfolio as available-for-sale, which are carried on the balance sheet at fair market value. Classification of available-for-sale investments allows flexibility to actively manage the portfolio under various market conditions.

U.S. Treasury securities and government agencies and corporate obligations consisted primarily of MBS and CMOs and accounted for 70.5% and 74.3% of the investment portfolio for years ended December 31, 2013 and 2012, respectively. The credit quality of First Citizens' MBS and CMO portfolio was considered strong and reflected a net unrealized loss (pre-tax) of \$4.6 million as of December 31, 2013. The unrealized loss position is attributable to market factors as values are heavily influenced by market rates and the yield curve, including but not limited to the 10-year Treasury rates, which increased approximately 126 basis points from December 31, 2012 to December 31, 2013. Credit quality factors on the bonds and related underlying mortgages are evaluated at the time of purchase and on a periodic basis thereafter. These factors typically include, but are not limited to, average loan-to-value ratios, average FICO credit scores, payment seasoning (how many months of payment history), geographic dispersion, average maturity and average duration. Management believes that this level of amortizing securities provides steady cash flows. Principal cash flows for 2014 are projected to be \$60-70 million.

As of December 31, 2013, approximately a third of the investment portfolio was invested in municipal securities, which were geographically diversified, compared to 25% as of December 31, 2012. The fair value of municipal securities totaled \$134.8 million (\$133.4 million tax-exempt and \$1.4 million taxable) at December 31, 2013. Approximately 64% of municipal securities were general obligation municipal bonds and the remaining 36% were revenue bonds at December 31, 2013. The revenue bonds are primarily essential services bonds such as for water and sewer, school systems and other public improvement projects. Overall credit quality of the municipal portfolio was considered strong and reflected a net unrealized gain of \$3.9 million as of year-end 2013.

As of December 31, 2012, less than 1% of the investment portfolio consisted of three collateralized debt obligation securities that are backed by trust-preferred securities (TRUP CDOs) issued by banks, thrifts and insurance companies. The TRUP CDOs reflected a net unrealized loss of \$1.3 million as of year-end 2012. The TRUP CDOs were sold in December 2013 for a gain of approximately \$711,000.

The following table indicates by category gross unrealized gains and losses within the available-for-sale portfolio as of December 31, 2013 (in thousands)

	Unrealized Gains	Unrealized Losses	Net
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$2,927	\$(7,496)	\$(4,569)
Obligations of states and political subdivisions	5,338	(1,400)	3,938
All other	48	-	48
Total	\$8,313	\$(8,896)	\$(583)

Unrealized gains and losses noted above were included in Accumulated Other Comprehensive Income, net of tax.

● Loan Portfolio Analysis

The following table compares the portfolio mix of loans held for investment as of December 31 for each of the last five years (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Commercial, financial and agricultural	\$ 81,757	\$ 74,014	\$ 72,174	\$ 66,297	\$ 71,301
Real estate-construction	46,959	40,498	39,964	49,148	66,414
Real estate-mortgage	413,235	397,638	383,934	395,256	407,058
Installment loans to individuals	24,807	25,428	28,027	31,593	34,071
Other loans	13,478	11,874	3,600	5,409	8,554
Total loans	\$580,236	\$549,452	\$527,699	\$547,703	\$587,398

For purposes of the table above, loans do not include loans that are sold in the secondary mortgage market. First Citizens classifies loans to be sold in the secondary mortgage market separately in its consolidated financial statements. Secondary market mortgages totaled \$3.0 million, \$4.7 million and \$2.6 million as of December 31, 2013, 2012 and 2011, respectively. For more information, see Notes 4, 5 and 6 in First Citizens Consolidated Financial Statements for the years ended December 31, 2013 and 2012 (the FCB Consolidated Financial Statements). Interest and fees earned on secondary mortgage loans were included in mortgage banking income as reported in other non-interest income in the FCB Consolidated Financial Statements.

• Changes In Loan Categories

Total loans at December 31, 2013 were \$580 million compared to \$549 million at December 31, 2012 and \$528 million at December 31, 2011. Improved loan trends were a result of overall increased loan demand. Loans increased 5.6% in 2013 and 4.1% in 2012. The following table details the breakdown of changes by category for the year ended December 31, 2013 (dollars in thousands):

	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Commercial, financial and agricultural	\$ 7,743	10.46%
Real estate-construction	6,461	15.95%
Real estate-mortgage	15,597	3.92%
Installment loans to individuals	(621)	(2.44%)
Other loans	1,604	13.50%
Net change in loans	\$30,784	5.60%

The loan portfolio remains heavily weighted in real estate loans, which accounted for \$460 million or 79% of total loans as of December 31, 2013 compared to \$438 million or 80% of total loans as of December 31, 2012. Commercial and residential construction loans accounted for \$47 million of the \$460 million invested in real estate loans. Construction loans have trended downward steadily over the past five years, but increased slightly in 2013. Although the portfolio was heavily weighted in real estate, First Citizens National Bank does not invest in sub-prime or non-traditional mortgages. Within real estate loans, residential mortgage loans (including residential construction) was the largest category, comprising 38% of total loans as of December 31, 2013 compared to 39% as of December 31, 2012. Diversification of the real estate portfolio is a necessary and desirable goal of First Citizens' real estate loan policy. In order to achieve and maintain a prudent degree of diversity, given the composition of the market area and the general economic state of the market area, First Citizens will strive to maintain real estate loan portfolio diversification. Risk monitoring of commercial real estate concentrations is performed in accordance with regulatory guidelines and includes assessment of risk levels of various types of commercial real estate and review of ratios of various concentrations of commercial real estate as a percentage of capital. During 2013, loans increased 5.6% and capital decreased 1.3%. Therefore, real estate loans as a percent of capital increased. The following table presents real estate loans as a percent of total risk based capital as of December 31 for each of the last five years:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>As a percent of total risk based capital*:</u>					
Construction and development	40.49%	37.79%	40.06%	53.05%	77.40%
Residential (one-to-four family)	147.13%	163.16%	163.40%	184.50%	206.82%
Other real estate loans	209.14%	207.93%	224.04%	245.15%	270.74%
Total real estate loans	396.75%	408.89%	427.50%	482.70%	554.96%

* Total risk-based capital is a non-GAAP measure used by regulatory authorities and reported on quarterly regulatory filings. Total risk-based capital for First Citizens National Bank was \$116.0 million, \$107.2 million, \$99.8 million, \$92.6 million and \$85.5 million as of December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

Positive loan growth in 2013 occurred across all loan categories except installment loans to individuals and is evidence of improved conditions as the U.S. recovers from the most recent economic recession. Of the 10.5% increase in commercial, financial and agriculture loans, loans to finance agriculture production comprised 62.4% of this increase. Agriculture remains a strong sector in the local economies and markets served by First Citizens National Bank, as crop yields and prices had favorable trends in 2013. After First Citizens National Bank strategically reduced its concentration of one-to-four family residential construction and non-owner occupied commercial real estate loans during the period from 2007 to 2012, the more stable economic conditions in 2013 provided opportunities for limited quality growth in these categories as well as lower-risk owner-occupied commercial real estate, especially in growth markets such as Williamson County, Tennessee.

• Average Loan Yields

The average yield on loans of First Citizens National Bank has trended downward over the past five years, as loans have repriced during the historically low interest rate environment. Average yield on loans for the years indicated were as follows:

2013 - 5.67%
 2012 - 6.11%
 2011 - 6.32%

2010 - 6.42%

2009 - 6.51%

The aggregate amount of unused guarantees, commitments to extend credit and standby letters of credit was \$92 million at year-end 2013. For more information regarding commitments and standby letters of credit, see Note 18 in the FCB Consolidated Financial Statements.

• Loan Policy Guidelines

Management has established policies approved by First Citizens' board of directors regarding portfolio diversification and underwriting standards. Loan policy also includes Board-approved guidelines for collateralization, loans in excess of loan to value (LTV) limits, maximum loan amount and maximum maturity and amortization period for each loan type. Policy guidelines for LTV ratios and maturities related to various types of collateral at December 31, 2013, were as follows:

Collateral	Maximum Amortization	Maximum LTV
Real estate	Various (see discussion below)	Various (see discussion below)
Equipment*	5 Years	75%
Inventory	5 Years	50%
Accounts receivable	5 Years	75%
Livestock	5 Years	75%
Crops	1 Year	50%
Securities**	10 Years	75% (Listed), 50% (Unlisted)

* New farm equipment can be amortized over seven years with a guaranty by the FSA. Farm irrigation systems may be amortized over seven years without an FSA guaranty.

** When proceeds are used to purchase or carry securities not listed on a national exchange, maximum LTV shall be 50%.

First Citizens manages risk in the real estate portfolio by adherence to regulatory limits in regards to LTV percentages, as designated by the following categories:

<u>Loan Category</u>	<u>Maximum LTV</u>
Raw land	65%
Farmland	80%
Real estate-construction:	
Commercial acquisition and development	70%
Commercial, multi-family* and other non-residential	80%
One-to-four family residential owner occupied	80%
One-to-four family residential non-owner occupied	75%
Commercial (existing property):	
Owner occupied improved property	85%
Non-owner occupied improved property	80%
Residential (existing property):	
Home equity lines	80%
Owner occupied one-to-four family residential	90%
Non-owner occupied one-to-four family residential	75%

* Multi-family construction loans include loans secured by cooperatives and condominiums.

Loans may be approved in excess of the LTV limits, provided that they are approved on a case-by-case basis pursuant to First Citizens National Bank's loan policy as follows:

- The request is fully documented to support the fact that other credit factors justify the approval of that particular loan as an exception to the LTV limit;
- The loan, if approved, is designated in First Citizens National Bank's records and reported as an aggregate number with all other such loans approved by the full board of directors on at least a quarterly basis;
- The aggregate total of all loans so approved, including the extension of credit then under consideration, shall not exceed 65% of First Citizens National Bank's total capital; and
- The aggregate portion of these loans in excess of the LTV limits that are classified as commercial, agricultural, multi-family or non-one-to-four family residential property shall not exceed 30% of First Citizens National Bank's total capital.

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First Citizens National Bank's loan policy additionally requires every loan to have a documented repayment arrangement. While reasonable flexibility is necessary to meet credit needs of customers, in general real estate loans are to be repaid within the following time frames:

<u>Loan Category</u>	<u>Amortization Period</u>
Raw land	10 years
Real estate- construction	1.5 years
Real estate-commercial, multi-family, and other non-residential	20 years
Real estate-one-to-four family residential	25-30 years
Home equity	10 years
Farmland	20 years

- Credit Risk Management and Allowance for Loan Losses

Loan portfolio quality improved in 2013 compared to 2012 and 2011 and remains manageable relative to prevailing market conditions, as is evidenced through improving trends in impaired loans and changes to the allowance for loan losses. The ratio of net charge-offs to average net loans outstanding was 0.16%, 0.14% and 0.44% for the years ended December 31, 2013, 2012 and 2011, respectively. The aggregate of non-performing loans and other real estate owned (OREO) as a percent of total loans plus OREO at December 31, 2013 totaled 2.62% compared to 3.14% at December 31, 2012 and 3.52% at December 31, 2011. The volume of OREO decreased \$1.8 million and loans charged off decreased \$349,000 in 2013 compared to 2012 while total non-performing loans decreased \$384,000 from 2013 to 2012. Management believes that First Citizens National Bank's strong credit risk management practices continue to provide a means for timely identification and assessment of problem credits in order to minimize losses. For additional information regarding First Citizens' credit risk management procedures and practices and allowance for loan losses, refer to Notes 1, 4 and 5 in the FCB Consolidated Financial Statements.

- Non-Performing Assets

Non-performing assets consist of non-performing loans, OREO and non-accrual debt securities. Non-performing loans consist of non-accrual loans, loans 90 days or more past due and still accruing interest and restructured loans. Interest income on loans is recorded on an accrual basis. The accrual of interest is discontinued on all loans, except consumer loans, which become 90 days past due, unless the loan is well secured and in the process of collection. Consumer loans which become past due 90 to 120 days are charged to the allowance for loan losses. The gross interest income that would have been recorded for the 12 months ended December 31, 2013 if all loans reported as non-accrual had been current in accordance with their original terms and had been outstanding throughout the period was approximately \$473,000 for 2013 compared to approximately \$596,000, \$404,000, \$209,000 and \$216,000 for the 12 months ended December 31, 2012, 2011, 2010 and 2009, respectively. Loans on which terms have been modified to provide for a reduction of either principal or interest as a result of deterioration in the financial position of the borrower are considered to be restructured loans, or troubled-debt restructurings (TDRs). First Citizens had TDRs totaling \$4.8 million of December 31, 2013, compared to \$5.0 million as of December 31, 2012. For additional discussion regarding non-performing assets, see Note 4 in the FCB Consolidated Financial Statements.

- Other Real Estate Owned

The book value of OREO was \$6.8 million as of December 31, 2013, compared to \$8.6 million and \$11.1 million as of December 31, 2012 and 2011, respectively. As of December 31, 2013, there were approximately 90 properties accounted for as OREO consisting of vacant land, residential lots and other residential and commercial properties. Approximately 91% of the \$6.8 million accounted for as OREO as of December 31, 2013, was located in Shelby County, Tennessee and surrounding counties. Management continues efforts to market and liquidate OREO.

Activity in OREO for the years ended December 31, 2013, 2012, and 2011 was as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$8,580	\$11,073	\$14,734
Acquisitions	541	1,261	3,565
Capitalized costs	-	159	284
Dispositions	(1,702)	(2,751)	(6,136)
Valuation adjustments through earnings	(593)	(1,162)	(1,374)
Ending balance	\$6,826	\$ 8,580	\$11,073

Capitalized costs consist of costs to complete construction of homes partially complete at the time of foreclosure or to complete certain phases of a development project for raw land. Capitalized costs were incurred in order to improve marketability of certain properties. Valuation adjustments through earnings reflected above includes write down of properties subsequent to foreclosure and realized gains and losses on sale of OREO.

OREO is recorded at the time of foreclosure at the lesser of its appraised value (less cost to sell) or the loan balance. Any reduction in value at the time of foreclosure is charged to the allowance for loan losses. All other real estate parcels are appraised at least annually and carrying values adjusted to reflect the decline, if any, in their realizable value. Such adjustments made subsequent to foreclosure are charged against earnings.

Other non-interest expenses for property taxes, maintenance and other costs related to acquisition or maintenance of OREO totaled approximately \$415,000, \$455,000 and \$682,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The positive trend in

other non-interest expense related to OREO from 2011 through 2013 was attributable to the reduced volume of OREO acquired.

- Composition of Deposits

The average balance of deposits and average interest rates paid on such deposits are summarized in the following table for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
Non-interest bearing demand deposits	\$133,019		\$125,364		\$107,792	
Savings deposits	465,847	0.48%	409,576	0.61%	351,221	0.85%
Time deposits	348,454	0.74%	341,005	1.01%	362,313	1.30%
Total deposits	\$947,320	0.51%	\$875,945	0.68%	\$821,326	0.94%

The decrease in average cost of deposits for the year ended December 31, 2013 compared to the prior two years was a result of the continued historically low interest rate environment and a result of the impact of the Federal Open Market Committee (FOMC) decision to maintain low federal funds rates during that timeframe. It is expected that federal fund rates will remain at the current range of 0.00% to 0.25% through the end of 2014. During 2013, the prevailing market and competitive environment continued to yield strong competition in the pricing of interest-bearing deposit products, but overall pricing remained very low compared to long-term historical trends. First Citizens National Bank does not compete solely on price, as strategies are focused more on customer relationships that attract and retain core deposit customers rather than time deposits.

Total deposits grew less than 1% from December 31, 2012 to December 31, 2013. Savings deposit growth was \$23.6 million or 5.1% and demand deposit balances grew \$3.0 million or 2.2% during 2013. Growth in savings and demand deposits was mostly offset by time deposits, which declined \$22.9 million or 6.4% in 2013. Savings deposit growth was primarily attributable to growth in First Citizens National Bank's interest bearing savings accounts, including the Wall Street, e-Solutions and First Rate accounts, which carry competitive attractive rates compared to other options available to customers in time deposits and other brokerage or investment products.

First Citizens National Bank participates in the Certificate of Deposit Account Registry Service (CDARS), a deposit placement service that allows First Citizens National Bank to accept very large-denomination certificates of deposit (CDs) (up to \$50 million) from customers and ensures that 100% of those CDs are FDIC-insured. Participating in this network enhances First Citizens National Bank's ability to attract and retain large-denomination depositors without having to place funds in a sweep or repurchase agreement. The CDARS network provides a means to place reciprocal deposits for First Citizens National Bank's customers, purchase time deposits (referred to as one-way buy deposits) or to sell excess deposits (referred to as one-way sell deposits). One-way buy deposits are structured similarly to traditional brokered deposits. First Citizens National Bank held reciprocal deposits and one-way buy deposits in the CDARS program totaling \$8.4 million at year-end 2013 compared to \$9.7 million at year-end 2012. CDARS accounts are classified as brokered time deposits for regulatory reporting purposes. Brokered deposits were comprised entirely of CDARS balances and accounted for 0.8% of total deposits as of December 31, 2013 and 1.0% of total deposits as of December 31, 2012.

Time deposits over \$100,000 (including brokered time deposits) comprised 58.7% of total time deposits as of December 31, 2013 compared to 57.1% as of year-end 2012. As of December 31, 2013, 81.4% of time deposits, including brokered time deposits, will mature or reprice over the next 12 months as the prevailing competitive market and rate environment continued to exhibit strong demand for shorter terms during 2013.

- Other Borrowings

In addition to deposits, First Citizens uses a combination of short-term and long-term borrowings to supplement its funding needs. Short-term borrowings are used to manage fluctuations in liquidity based on seasonality of agricultural production loans and other factors. Short-term borrowings were used on a very limited basis during the most recent two fiscal years because of First Citizens' strategic efforts to maintain a strong liquidity position, modest loan demand, and steady growth in core deposits.

For more information about short-term and long-term borrowings, see Notes 12 and 13 to the FCB Consolidated Financial Statements.

Other borrowings at the holding company level carried a variable rate and consisted of trust-preferred debt in 2012 and 2011.

First Citizens National Bank's other borrowings consist of advances from the FHLB. The average volume of FHLB advances for 2013 was \$46.1 million at an average rate of 1.93% compared to \$40.0 million at an average rate of 2.23% in 2012. The average remaining maturity for FHLB long-term borrowings was approximately four years at December 31, 2013. As of December 31, 2013, FHLB borrowings were comprised primarily of fixed rate positions ranging from 0.54% to 7.05% and maturities from 2014 to 2023. Approximately 9% of total other borrowings or \$4.8 million will mature on or before December 31, 2014. As of December 31, 2013, advances totaling \$14 million require repayment if call

features are 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 and, therefore, were not included in current liabilities. For more information about liquidity, see the section below entitled Liquidity.

- Aggregate Contractual Obligations

At December 31, 2013, contractual obligations were due as follows (in thousands):

Contractual Obligations	Total	Less than One Year	One- Three Years	Three- Five Years	Greater than Five Years
Unfunded loan commitments	\$ 87,698	\$87,698	\$ -	\$ -	\$ -
Standby letters of credit	4,266	4,266	-	-	-
Other borrowings ⁽¹⁾	51,167	4,805	13,257	17,148	15,957
Capital lease obligations	-	-	-	-	-
Operating lease obligations	-	-	-	-	-
Purchase obligations ⁽²⁾	1,584	1,584	-	-	-
Other long-term liabilities	-	-	-	-	-
Total	\$127,945	\$83,741	\$17,463	\$2,205	\$24,536

(1) Other borrowings presented as principal only, excluding interest.

(2) Purchase obligation reflects contract price less payments through December 31, 2013 for construction of full service facility in Jackson, Tennessee.

- Off-Balance Sheet Arrangements

Except for unfunded loan commitments and standby letters of credit, First Citizens National Bank does not engage in a material amount of off-balance sheet activities and does not anticipate material changes in volume in the future.

Results of Operations

First Citizens reported consolidated net income of \$13.8 million for the year ended December 31, 2013, compared to \$13.5 million for the year ended December 31, 2012. The modest 2.2% increase in net income from 2012 to 2013 was primarily a result of increased net interest income after provision for loan losses and increased non-interest income. Earnings per share were \$3.83 for 2013 compared to \$3.75 for 2012. Return on average assets was 1.19% and 1.25% for the years ended December 31, 2013 and 2012, respectively. Return on average equity was 12.1%, and 12.2% for 2013 and 2012, respectively.

Net yield on average earning assets was 3.83% in 2013 compared to 4.01% in 2012. Although the net interest income as a percentage of average earning assets decreased in 2013, overall growth in earning assets resulted in an increase of \$1.2 million in net interest income in 2013 compared to 2012.

Total non-interest income for the year ended December 31, 2013 increased \$1.6 million or 12.7% compared to the year ended December 31, 2012. The net increase was primarily attributable to reduction in losses recognized on OREO totaling approximately \$593,000 in 2013 compared to \$1.2 million in 2012 and increased gain on sale of available-for-sale securities totaling \$1.3 million in 2013 compared to approximately \$680,000 in 2012.

First Citizens' effective tax rate was 23% in each of the years ended December 31, 2013 and 2012. First Citizens' effective tax rate is impacted by certain factors which can vary from year to year and include, but are not limited to, the volume of and related earnings on tax-free investments within First Citizens National Bank's investment portfolio, tax-exempt earnings and expenses on bank-owned life insurance (BOLI), certain tax benefits that result from dividends and payouts under First Citizens National Bank's Employee Stock Ownership Plan (ESOP), and other factors incidental to the financial services business.

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Interest earning assets in 2013 averaged \$1.05 billion at an average rate of 4.42% compared to \$972.6 million at an average rate of 4.77% in 2012 and \$898 million at an average rate of 5.32% in 2011. Interest bearing liabilities at December 31, 2013 averaged \$911 million at an average cost of 0.68% compared to \$836 million at an average cost of 0.88% at December 31, 2012 and \$797 million at an average cost of 1.2% at December 31, 2011.

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The following table presents the annual average balance sheet and net interest income analysis for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

	AVERAGE BALANCES AND RATES								
	2013			2012			2011		
	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>
<u>Assets</u>									
Interest earning assets:									
Loans (1)(2)(3)	\$567,414	\$ 32,156	5.67%	\$ 528,024	\$ 32,277	6.11%	\$ 541,255	\$34,159	6.31%
Investment securities:									
Taxable	328,016	7,160	2.18%	283,244	7,222	2.55%	215,458	6,832	3.17%
Tax exempt (4)	124,922	7,129	5.71%	116,142	6,802	5.86%	107,760	6,700	6.22%
Interest earning deposits	29,657	85	0.29%	34,330	89	0.26%	25,537	65	0.25%
Federal funds sold	3,348	16	0.48%	10,841	34	0.31%	8,403	28	0.33%
Total interest earning assets	1,053,357	46,546	4.42%	972,581	46,424	4.77%	898,413	47,784	5.32%
Non-interest earning assets:									
Cash and due from banks	14,087			15,288			14,122		
Premises and equipment	34,271			29,574			29,758		
Other assets	63,500			65,739			66,707		
Total assets	\$1,165,215			\$ 1,083,182			\$ 1,009,000		
<u>Liabilities and shareholders equity</u>									
Interest bearing liabilities									
Savings deposits	\$465,847	\$ 2,250	0.48%	\$ 409,576	\$ 2,491	0.61%	\$ 351,221	\$2,981	0.85%
Time deposits	348,454	2,576	0.74%	341,005	3,428	1.01%	362,313	4,711	1.30%
Federal funds purchased and other interest bearing liabilities	97,241	1,385	1.42%	85,432	1,458	1.71%	83,217	1,664	2.00%
Total interest bearing liabilities	911,542	6,214	0.68%	836,013	7,377	0.88%	796,751	9,356	1.17%
Non-interest bearing liabilities									
Demand deposits	133,019			125,364			107,792		
Other liabilities	6,165			11,149			7,351		
Total liabilities	1,050,726			972,526			911,894		
Total shareholders equity	114,489			110,656			97,106		
Total liabilities and shareholders equity	\$1,165,215			\$ 1,083,182			\$ 1,009,000		
Net interest income		\$ 40,332			\$ 39,047			\$ 38,428	
Net yield on average earning assets			3.83%			4.01%			4.28%

(1) Loan totals are loans held for investments and net of unearned income and loan loss reserves.

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- (2) Fee income on loans held for investment is included in interest income and computations of the yield.
- (3) Includes loans on non-accrual status.
- (4) Interest and rates on securities that are non-taxable for federal income tax purposes are presented on a taxable equivalent basis based on First Citizens' statutory federal tax rate of 34%.

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Volume/Rate Analysis

The following table provides an analysis of the impact of changes in balances and rates on interest income and interest expense changes from 2013 to 2012 and 2012 to 2011 (in thousands):

	2013 to 2012			2012 to 2011		
	Due to Changes in:			Due to Changes in:		
	Average Volume	Average Rate	Total Increase (Decrease)	Average Volume	Average Rate	Total Increase (Decrease)
Interest earned on:						
Loans	\$ 2,233	\$ (2,354)	\$ (121)	\$ (808)	\$ (1,074)	\$ (1,882)
Taxable securities	976	(1,038)	(62)	1,729	(1,339)	390
Tax-exempt securities	501	(174)	327	491	(389)	102
Interest bearing deposits with other banks	(14)	10	(4)	23	1	24
Federal funds sold and securities purchased under agreements to sell	(36)	18	(18)	8	(2)	6
Total interest earning assets	3,660	(3,538)	122	1,443	(2,803)	(1,360)
Interest expense on:						
Savings deposits	270	(511)	(241)	356	(846)	(490)
Time deposits	55	(904)	(849)	(215)	(1,068)	(1,283)
Federal funds purchased and securities sold under agreements to repurchase and other borrowings	168	(241)	(73)	38	(244)	(206)
Total interest bearing liabilities	493	(1,656)	(1,163)	179	(2,158)	(1,979)
Net interest earnings	\$ 3,167	\$ (1,882)	\$ 1,285	\$ 1,264	\$ (645)	\$ 619

● Non-Interest Income

The following table compares non-interest income for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

	Total	Increase (Decrease)		Total	Increase (Decrease)		Total
	2013	Amount	%	2012	Amount	%	2011
Mortgage banking income	\$ 1,445	\$ (52)	(3.47%)	\$ 1,497	\$ 667	80.36%	\$ 830
Income from fiduciary activities	904	68	8.13%	836	33	4.11%	803
Service charges on deposit accounts	4,798	(98)	(2.00%)	4,896	461	10.39%	4,435
Income from ATM and debit cards	2,493	102	4.27%	2,391	192	8.73	2,199
Brokerage fees	1,371	111	8.81%	1,260	(3)	(0.24%)	1,263
Earnings on bank owned life insurance	632	26	4.29%	606	(130)	(17.66%)	736
Gain (loss) on sale of foreclosed property	(593)	569	(48.97%)	(1,162)	212	(15.43%)	(1,374)
Gain on sale or call of available-for-sale securities	1,256	576	84.71%	680	(263)	(27.89%)	943
Gain on disposition of property	-	-	-	-	(273)	(100.00%)	273
Income from insurance activities	858	106	14.10%	752	(147)	(16.35%)	899
Other non-interest income	866	168	24.07%	698	32	4.80%	666
Total non-interest income	\$ 14,030	\$ 1,576	12.65%	\$ 12,454	\$ 781	6.69%	\$ 11,673

Total non-interest income increased 12.65% in 2013 compared to 2012. Mortgage banking income decreased approximately \$52,000 or 3.47% in 2013 due to a reduction in the volume of mortgages sold compared to 2012. Income from fiduciary activities increased 8.13% or approximately \$68,000 in 2013 compared to 2012. Service charges on deposits decreased 2.0% in 2013 compared to 2012 primarily due to lower overdraft fees. Brokerage fees increased approximately \$111,000 or 8.8% in 2013 compared to 2012. Earnings on BOLI assets increased approximately \$26,000 or 4.3% in 2013 compared to 2012.

Loss on sale of foreclosed property includes write downs of OREO subsequent to foreclosure and has reflected an improving trend over the past three years as the overall volume of OREO has declined from 2011 to 2013. Losses on foreclosed property totaled approximately \$593,000 in 2013 compared to over \$1 million annually in 2012 and 2011.

Gain on sale of available-for-sale securities increased approximately \$576,000 in 2013 compared to 2012 primarily due to the sale of the TRUP CDOs. Two of the TRUP CDOs had been on non-accrual status and incurred other-than-temporary impairment losses during the period of 2008 to 2011, but credit quality improved in 2012 and 2013. In December 2013, due to uncertainty of the ability of First Citizens to hold the securities until maturity created by the Volcker Rule, the TRUP CDOs were sold for a gain of approximately \$711,000.

In 2013, total non-interest income (excluding impairment losses on available-for-sale securities, if any) contributed 24.13% of total revenue in 2013 compared to 22.02% and 20.41% for 2012 and 2011, respectively. Gain on disposition of property of approximately \$273,000 was recognized in 2011 from the sale of First Citizens National Bank's real property in Union City, Tennessee that previously served as a limited service facility for First Citizens National Bank through January 2009. There were no gains or losses on the disposition of bank property in 2012 or 2013.

Income from White and Associates/First Citizens Insurance, LLC, a full-service insurance agency (WAFCI), was included in Income from Insurance Activities in the FCB Consolidated Statements of Income and increased approximately \$106,000 or 14.1% in 2013 compared to 2012. Non-interest income generated by WAFCI for 2013, 2012 and 2011 totaled approximately \$859,000, \$730,000 and \$813,000, respectively. Income from insurance activities also includes commissions from the sale of credit life policies and First Citizens' proportionate share of income from First Citizens National Bank's other 50% owned insurance agency, First Citizens/White and Associates Insurance Company.

- Non-Interest Expense

The following table compares non-interest expense for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

	Total			Increase (Decrease)			Total
	2013	Amount	%	2012	Amount	%	
Salaries and employee benefits	\$18,906	\$1,474	8.46%	\$17,432	732	4.38%	\$16,700
Net occupancy expense	1,696	24	1.44%	1,672	(4)	(0.24%)	1,676
Depreciation	1,985	163	8.95%	1,822	42	2.36%	1,780
Data processing expense	1,656	(184)	(10.00%)	1,840	99	5.69%	1,741
Legal and professional fees	467	(239)	(33.85%)	706	53	8.12%	653
Stationary and office supplies	224	4	1.82%	220	3	1.38%	217
Amortization of intangibles	42	7	20.00%	35	(50)	(58.82%)	85
Advertising and promotions	1,118	404	56.58%	714	52	7.85%	662
Premiums for FDIC insurance	804	234	41.05%	570	(253)	(30.74%)	823
Expenses related to other real estate owned	415	(40)	(8.79%)	455	(227)	(33.28%)	682
ATM related fees and expenses	1,496	391	35.38%	1,105	190	20.77%	915
Other expenses	4,532	86	1.93%	4,446	308	7.44%	4,138
Total non-interest expense	\$33,341	\$2,324	7.49%	\$31,017	\$945	3.14%	\$30,072

Total non-interest expense increased 7.5% in 2013 compared to 2012. Non-interest expense consisted primarily of salaries and employee benefits expense, which comprised 56.7% of total non-interest expense in 2013 compared to 56.0% in each of 2012 and 2011. Salary and employee benefits expense increased 8.5% or \$1.5 million in 2013 compared to 2012. Significant expense associated with salaries and benefits is consistent with First Citizens' strategic plan to hire and retain high quality employees to provide outstanding customer service and strive for exceptional shareholder returns. Increased expense in 2013 is attributable to a combination of pay increases to existing employees, increased cost of employee benefits, including health insurance, and contributions to retirement plans and incentive plans. In 2013, First Citizens also incurred additional salaries and benefits expense for investments in new hires necessary to achieve expansion and growth goals, absorb regulatory burdens and plan for succession.

Net occupancy expense has been flat at \$1.7 million annually for 2011 through 2013. Depreciation expense increased 8.95% in 2013 primarily due to the Cool Springs branch, which was purchased in December 2012. Data processing expense decreased 10.0% in 2013 primarily due to effective contract management of expenses for core systems and outsourced portions of the information technology functions of First Citizens National Bank. First Citizens continues to strive for efficiencies in the areas of expansion, data integrity/security and customer service. However, strategies adopted by First Citizens' board of directors to provide superior customer service will continue to exert pressure on occupancy, depreciation and other non-interest expenses going forward.

Legal and professional fees decreased in 2013 compared to 2012 as a result of decreased legal expenses related to pursuit of deficiencies on loans charged off and foreclosures as well as fewer consulting projects in 2013 compared to 2012 necessary to comply with increased regulatory burdens and to execute certain efficiency strategies.

Stationery and office supplies expense was flat as approximately \$220,000 annually in 2011 through 2013 as a result of increased cost of supplies offset by reduced use of paper and other products and strategic efforts to manage controllable expenses.

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Fluctuations in expense related to FDIC premiums from 2011 to 2012 were due to changes in how FDIC premiums are calculated and the increase from 2012 to 2013 is primarily due to the increase in overall deposits from organic growth and the December 2012 purchase of the Cool Springs branch.

Advertising and promotions expense increased significantly in 2013 compared to the prior two years due to specific strategic marketing initiatives which included engagement of a marketing firm, adoption of an updated logo and brand awareness campaign, and expansion of overall marketing efforts in newer markets such as Williamson County. Advertising and promotion costs are expensed as incurred and totaled \$1.1 million in 2013 compared to approximately \$714,000 in 2012 and approximately \$662,000 in 2011.

Expenses related to OREO totaled approximately \$415,000 in 2013 compared to approximately \$455,000 in 2012 and approximately \$682,000 in 2011. The reduction in expense was primarily attributable to decreased volume of OREO from 2011 to 2013.

Expenses associated with First Citizens' ATM and debit card program totaled \$1.5 million in 2013 compared to \$1.1 million in 2012 and approximately \$915,000 in 2011. Increased expenses for the ATM and debit card program were primarily related to costs of regulatory compliance, data integrity, fraud losses and fraud prevention and control. Fraud losses and expenses to contact customers and replace compromised cards have trended upwards over the past three years due to data breaches at large retailers such as Target Corporation. First Citizens has also experienced an increase in the cost of debit card rewards programs as the volume of debit transactions and use of those programs continued to increase each year.

Other non-interest expense increased 7.44% from 2011 to 2012 and 1.93% from 2012 to 2013. Such increases are due to the combined effect of small increases in various expenses, many of which are based on the asset or equity size such as fees paid to the Office of the Comptroller of the Currency, franchise taxes, and certain insurance premiums.

No impairment of goodwill was recognized in any of the periods presented in this report. Goodwill was 1.16% of total assets as of December 31, 2013 and 2012 and 12.12% and 12.18% of total capital as of December 31, 2013 and 2012, respectively. Amortization of core deposit intangibles was approximately \$42,000 and \$35,000 for the years ended December 31, 2013 and 2012, respectively.

Capital Resources

The following table presents key capital and earnings ratios for the years ended December 31:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net income to average total assets	1.19%	1.25%	1.18%	0.92%	0.89%
Net income to average shareholders' equity	12.06%	12.21%	12.22%	9.80%	10.19%
Dividends declared to net income	33.94%	32.00%	33.54%	40.86%	45.27%
Average equity to average assets	9.83%	10.22%	9.62%	9.38%	8.76%
Total equity to total assets	9.57%	9.69%	9.82%	9.16%	8.81%

Total equity decreased from \$114.1 million as of December 31, 2012 to \$112.6 million as of December 31, 2013. The decline in total equity is due to a \$10.6 million decrease in accumulated other comprehensive income. Accumulated other comprehensive income decreased due to a decrease of \$10.6 million in unrealized appreciation (net of tax) on the available-for-sale securities portfolio compared to prior year. Most of this decrease in accumulated other comprehensive income was offset by growth in retained earnings. Retained earnings increased \$9.1 million in 2013 as a result of increased undistributed net income.

First Citizens has historically maintained capital in excess of minimum levels established by regulation. The total risk-based capital ratios of 17.6% as of December 31, 2013 compared to 17.1% as of December 31, 2012 were significantly in excess of the 8% mandated by regulation. Risk-based capital focuses primarily on broad categories of credit risk and incorporates elements of transfer, interest rate and market risks. The calculation of risk-based capital ratio is accomplished by dividing qualifying capital by weighted risk assets in accordance with financial institution regulatory guidelines. The minimum risk-based capital ratio is 8.00%. At least one-half of this ratio, or 4.00%, must consist of core capital (Tier 1), and the remaining 4.00% may be in the form of core (Tier 1) or supplemental capital (Tier 2). Tier 1 capital or core capital consists of common shareholders' equity, qualified perpetual preferred stock and minority interests in consolidated subsidiaries. Tier 2 capital or supplementary capital may consist of the allowance for loan losses, perpetual preferred stock, term-subordinated debt and other debt and stock instruments.

In 2013, First Citizens' dividend payout ratio was 33.9% compared to 32.0% in 2012. The dividend payout ratio has trended in the range of 30% to 40% over the past five years as part of First Citizens' strategic effort to balance growth and preservation of capital with providing a competitive dividend yield. Dividend yield was 3.33% per year in both 2013 and 2012 and is consistent with historical dividend yields in excess of 3.00%. The Peer Report reported an average dividend yield of 1.42% for 2013.

As of year-end 2013, there was approximately \$25 million of retained earnings available for the payment of future dividends from First Citizens National Bank to First Citizens. Banking regulations require certain capital levels to be maintained and may limit dividends paid by First Citizens National Bank to First Citizens or by First Citizens to its shareholders. Historically, these restrictions have posed no practical limit on the ability of First Citizens National Bank or First Citizens to pay dividends.

As of December 31, 2013, First Citizens had repurchased approximately 109,839 shares of common stock; treasury stock had weighted average cost basis of \$27.56 per share at December 31, 2013. There were no treasury stock purchases during the year ended December 31, 2013. During 2012, First Citizens repurchased 100 shares of common stock for an aggregate cost of \$3,900 and a weighted average per share cost of \$39. There are currently no publicly announced plans or programs to repurchase shares.

Liquidity

First Citizens manages liquidity in a manner to ensure the availability of ample funding to satisfy loan demand, fund investment opportunities and fund large deposit withdrawals. Primary funding sources for First Citizens include customer core deposits and FHLB borrowings as well as correspondent bank and other borrowings. First Citizens liquidity position is further strengthened by ready access to a diversified base of wholesale borrowings, which includes lines of credit with the FHLB, federal funds purchased, securities sold under agreements to repurchase, brokered CDs and others.

Management believes that the turmoil and events in financial markets and across the banking industry during the most recent economic recession serve as proof that adequate liquidity is critical to First Citizens' success and survival, especially during times of market turbulence. Therefore, management maintains and regularly updates its strategic action plans related to liquidity, including crisis and contingency liquidity plans to defend against any material downturn in First Citizens National Bank's liquidity position.

As of December 31, 2013, deposits accounted for 91.2% of total liabilities compared to 90.7% as of December 31, 2012. Borrowed funds from the FHLB totaled 3.8% (\$41 million) of total liabilities as of December 31, 2013 compared to 3.6% (\$38 million) as of December 31, 2012. First Citizens National Bank had additional borrowing capacity of \$100.5 million with the FHLB as of December 31, 2013. First Citizens National Bank also has federal fund lines of credit with four correspondent banks with lines totaling \$54.5 million as of December 31, 2013.

In each of the years ended December 31, 2013 and 2012, First Citizens National Bank held \$23 million in short-term CDs with the State of Tennessee. Brokered time deposits were less than \$10 million as of year-end 2013 and 2012. Brokered deposits include reciprocal and one-way buy deposits in the CDARS program. For more information about CDARS, see the section above entitled "Financial Condition - Composition of Deposits."

When evaluating liquidity, funding needs are compared against the current level of liquidity, plus liquidity that would likely be available from other sources. This comparison provides a means for determining whether funds management practices are adequate. Management should be able to manage unplanned changes in funding sources, as well as react to changes in market conditions that could hinder First Citizens National Bank's ability to quickly liquidate assets with minimal loss. Funds management practices are designed and implemented to ensure that First Citizens does not pay above-market prices for funds or rely unduly on wholesale or credit-sensitive funding sources in order to maintain liquidity. The OCC has established benchmarks to be used as guidelines in managing liquidity. The following areas are considered liquidity red flags:

- Significant increases in reliance on wholesale funding;
- Significant increases in large CDs, brokered deposits or deposits with interest rates higher than the market;
- Mismatched funding, that is, funding long-term assets with short-term liabilities or short-term assets with long-term liabilities;
- Significant increases in borrowings;
- Significant increases in dependence on funding sources other than core deposits;
- Reduction in borrowing lines by correspondent banks;
- Increases in cost of funds;
- Declines in levels of core deposits; and
- Significant decreases in short-term investments.

Although liquidity remains stable, liquidity consistently remains a strategic focus of First Citizens National Bank's Funds Management Committee, which strives to maintain diverse funding sources conducive to net interest margin strategies. The following table reflects the liquidity position of First Citizens National Bank as of December 31, 2013, 2012 and 2011 in comparison to the OCC Liquidity Benchmarks:

<u>OCC Liquidity Benchmark</u>	2013	2012	2011
Short Term Liabilities/ Total Assets > 20%	26.42%	28.66%	14.85%
On Hand Liquidity to Total Liabilities < 8%	22.39%	24.49%	19.50%
Loan to Deposits < 80%	59.06%	56.09%	60.71%
Wholesale Funds/Total Sources > 15%	4.78%	6.20%	7.00%
Non-Core Funding Dependence > 20%	22.41%	21.88%	22.20%

The above comparison is one quantitative means of monitoring liquidity levels. However, other quantitative and qualitative factors are considered in the overall risk management process for liquidity. Such other factors evaluated by management include, but are not limited to, forecasting and stress testing capital levels, diversification of funding sources, degree of reliance on short-term volatile funding sources, deposit volume trends and stability of deposits. There are no known trends or uncertainties that are likely to have a material effect on First Citizens' liquidity or capital resources. There currently exist no recommendations by regulatory authorities, which, if implemented, would have such an effect.

Three and Six Months Ended June 30, 2014

Overview

Net income increased approximately \$496,000 or 7.3% and earnings per share increased \$0.14 or 7.5% when comparing the first six months of 2014 and 2013. For the first six months of 2014, net income totaled \$7.3 million compared to \$6.8 million for the same period in 2013. Increased earnings in 2014 were primarily due to increased gains on sale of available-for-sale securities, reduced provision for loan losses and increased net interest income.

Management of First Citizens remains steadfast in its commitment to quality growth balanced with strong liquidity and capital positions. Balance sheet growth for first two quarters of 2014 was modest at 2.04% as loan growth was funded primarily by investment cash flows as deposits were flat during the first six months of 2014. Capital increased \$9.4 million or 8.4% from December 31, 2013 to June 30, 2014 as a result of undistributed net income of \$5.5 million and an increase of \$4.0 million in accumulated other comprehensive income due to overall appreciation of the investment portfolio. Unrealized gains and losses on available-for-sale securities continue to fluctuate relative to the overall market yield curve. The market values of the portfolio are heavily influenced by the 10-year Treasury rate, which was 3.04% as of December 31, 2013 and 2.53% as of June 30, 2014.

Key performance metrics for First Citizens reflect solid capital positions and stable earnings for the first six months of 2014 consistent with the same period of prior years. Such key metrics are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income to average total assets	1.23%	1.17%	1.29%	1.20%	0.88%
Net income to average shareholders equity	12.34%	11.73%	12.78%	12.75%	9.72%
Dividends declared to net income	24.86%	26.67%	26.32%	24.69%	25.97%
Average equity to average assets	9.75%	9.99%	10.12%	10.22%	9.50%
Total equity to total assets	10.17%	9.51%	10.14%	9.73%	9.23%

The efficiency ratio is a measure of non-interest expense as a percentage of total revenue. First Citizens computes the efficiency ratio by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income. This is a non-GAAP financial measure, which management believes provides investors with important information regarding First Citizens' operational efficiency. Comparison of First Citizens' efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently. The efficiency ratios for the second quarter ended June 30, 2014, 2013 and 2012 were 61.82%, 62.31%, and 59.26%, respectively.

The tangible common equity ratio is a non-GAAP measure used by management to evaluate capital adequacy. Tangible common equity is total equity less net accumulated other comprehensive income (OCI), goodwill and deposit-based intangibles. Tangible assets are total assets less goodwill and deposit-based intangibles. The tangible common equity ratio is 8.80% as of June 30, 2014 compared to 8.28% and 8.21% as of June 30, 2013 and 2012, respectively.

A reconciliation of non-GAAP measures of efficiency ratio and tangible common equity is provided as follows for the six months ended June 30, 2014, 2013 and 2012:

	At or for the Six Months Ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Efficiency ratio:			
Net interest income ⁽¹⁾	\$10,520	\$9,994	\$9,720
Non-interest income ⁽²⁾	3,201	3,202	3,007
Total revenue	13,721	13,196	12,727
Non-interest expense	8,483	8,223	7,542
Efficiency ratio	61.82%	62.31%	59.26%
Tangible common equity ratio:			
Total equity capital	\$122,005	\$110,246	\$109,782
Less:			
Accumulated other comprehensive income	3,631	1,439	10,079
Goodwill	13,651	13,651	11,825
Other intangible assets	362	405	-
Tangible common equity	\$104,361	\$94,751	\$87,878
Total assets	\$1,199,609	\$1,158,982	\$1,082,806
Less:			
Goodwill	13,651	13,651	11,825
Other intangible assets	362	405	-
Tangible assets	\$1,185,596	\$1,144,926	\$1,070,981
Tangible common equity ratio	8.80%	8.28%	8.21%

(1) Net interest income includes interest and rates on securities that are non-taxable for federal income tax purposes that are presented on a taxable equivalent basis based on federal statutory rate of 34%.

(2) Non-interest income is presented net of any credit component of other-than-temporary impairment on available-for-sale securities recognized against earnings for the years presented.

Critical Accounting Policies

There was no significant change in critical accounting policies from December 31, 2013 to June 30, 2014.

Changes in Financial Condition

Total assets were \$1.20 billion as of June 30, 2014. Total assets increased \$23.9 million or 2.0% (annualized 4.1%) during the first two quarters of 2014 primarily as a result of an increase of \$31 million in total loans. Federal funds sold grew \$2.0 million and available-for-sale investment securities decreased \$9.6 million in the first two quarters of 2014 as cash flows were used to fund loan growth. First Citizens remains steadfast in its commitment to asset quality by not compromising underwriting standards in order to grow its loan portfolio.

Deposits were flat with a less than 0.2% (annualized at less than 1.0%) variance from year end 2013 to the end of the second quarter of 2014. Savings deposits decreased \$6.9 million and demand deposits decreased \$5.7 million during first two quarters of 2014. Demand deposits have been in excess of \$130 million during the first six months of 2014 with steady monthly averages for the six-month period in the range of \$133 million to \$138 million. Time deposits increased \$11.3 million during the first six months of 2014.

Securities sold under agreements to repurchase increased \$7.3 million or 19.7% since year-end 2013. Securities sold under agreements to repurchase had a monthly average balance range of \$37 million to \$41 million during the six months ended June 30, 2014. Other borrowings increased approximately \$8.4 million during the six months ended June 30, 2014. The increase is primarily because of a \$5 million short term advance used to fund seasonal agriculture lines of credit.

Capital increased \$9.4 million as a result of undistributed net income totaling \$5.5 million and an increase of \$4.0 in AOCI during the first two quarters 2014. AOCI increased due to overall appreciation in the available-for-sale investment securities portfolio during the quarter.

Results of Operations

Net interest income is the principal source of earnings for First Citizens and is defined as the amount of interest generated by earning assets minus interest cost to fund those assets. Net interest income increased 2.6% and totaled \$19.4 million for the first six months of 2014 compared to \$18.8 million in first six months of 2013. The net yield on average earning assets for the second quarters of 2014 and 2013 were 4.44% and 4.37%, respectively. The modest increase of four basis points in yield on earning assets is driven by the modest improvement in reinvestment rates for taxable securities that has occurred during the past twelve months following five years of a downward trend. Cost of interest bearing liabilities decreased from 0.69% in second quarter 2013 to 0.63% in second quarter 2014. Net interest margin for second quarter 2014 was 3.90% compared to 3.78% in second quarter 2013. Net interest margin stabilized in 2013 and has been steady in the 3.78% to 3.90% the past six quarters.

The following quarterly average balances, interest, and average rates are presented in the following table (dollars in thousands):

	<u>QUARTER-TO-DATE AVERAGE BALANCES AND RATES</u>								
	2014			2013			2012		
	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>	<u>Balance</u>	<u>Interest</u>	<u>Rate</u>
<u>Assets</u>									
Interest earning assets:									
Loans ⁽¹⁾⁽²⁾⁽³⁾	\$597,686	\$8,170	5.47%	\$569,572	\$8,058	5.66%	\$531,695	\$8,100	6.09%
Investment securities:									
Taxable	316,584	1,797	2.27%	343,287	1,742	2.03%	276,429	1,828	2.65%
Tax exempt ⁽⁴⁾	145,144	2,009	5.54%	126,431	1,761	5.57%	116,588	1,691	5.80%
Interest earning deposits	16,444	12	0.29%	17,604	15	0.34%	22,497	18	0.32%
Federal funds sold	3,778	4	0.42%	1,781	3	0.67%	14,804	9	0.24%
Total interest earning assets	1,079,636	11,992	4.44%	1,058,675	11,579	4.37%	962,013	11,646	4.84%
Non-interest earning assets:									
Cash and due from banks	13,771			13,189			13,488		
Premises and equipment	34,829			34,178			29,356		
Other assets	63,907			65,000			64,497		
Total assets	\$1,192,143			\$1,171,042			\$1,069,354		
<u>Liabilities and shareholders' equity</u>									

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Interest bearing liabilities:									
Interest bearing deposits	\$835,327	1,162	0.56%	\$817,239	1,230	0.60%	\$744,063	1,542	0.83%
Federal funds purchased and other interest bearing liabilities	94,961	310	1.31%	100,926	355	1.41%	85,315	384	1.80%
Total interest bearing liabilities	930,288	1,472	0.63%	918,165	1,585	0.69%	829,378	1,926	0.93%
Non-interest bearing liabilities									
Demand deposits	134,592			126,301			120,107		
Other liabilities	6,481			9,542			10,539		
Total liabilities	1,071,361			1,054,008			960,024		
Total shareholders' equity	120,782			117,034			109,330		
Total liabilities and shareholders' equity	\$1,192,143			\$1,171,042			\$1,069,354		
Net interest income		\$10,520			\$9,994			\$9,720	
Net yield on average earning assets			3.90%			3.78%			4.04%

- (1) Loan totals are loans held for investment and net of unearned income and loan loss reserves.
- (2) Fee income on loans held for investment is included in interest income and computations of yield.
- (3) Includes loans on non-accrual status.
- (4) Interest and rates on securities that are non-taxable for federal income tax purposes are presented on a taxable equivalent basis based on First Citizens' statutory federal tax rate of 34%.

Provision for loan losses totaled \$375,000 and \$525,000 in the first two quarters of 2014 and 2013, respectively. Loans charged off net of recoveries totaled approximately \$386,000 and \$634,000 in the first two quarters of 2014 and 2013, respectively. Allowance for losses on loans as a percent of total loans was 1.28% as of June 30, 2014 compared to 1.33% as of June 30, 2013 and 1.34% as of December 31, 2013.

Non-interest income represents fees and other income derived from sources other than interest-earning assets. Non-interest income was flat at \$3.2 million in the second quarter of 2014 and 2013. Non-interest income contributed 22.1% of total revenue in the second quarter of 2014 compared to 22.5% of total revenue in the second quarter of 2013. The following table compares non-interest income for the second quarter of 2014, 2013 and 2012 (dollars in thousands):

	Total	Increase (Decrease)		Total	Increase (Decrease)		Total
	2014	Amount	%	2013	Amount	%	2012
Mortgage banking income	\$314	(\$145)	(31.59%)	\$459	\$114	33.04%	\$345
Income from fiduciary activities	200	(10)	(4.76%)	210	25	13.51%	185
Service charges on deposit accounts	1,153	(30)	(2.54%)	1,183	(41)	(3.35%)	1,224
Income from ATM and debit cards	668	32	5.03%	636	35	5.82%	601
Brokerage fees	328	30	10.07%	298	(102)	(25.50%)	400
Earnings on bank owned life insurance	146	(2)	(1.35%)	148	10	7.25%	138
Gain (loss) on sale of foreclosed property	(22)	128	(85.33%)	(150)	103	(40.71%)	(253)
Gain on sale or call of available-for-sale securities	41	14	51.85%	27	21	350.00%	6
Income from insurance activities	207	(7)	(3.27%)	214	29	15.68%	185
Other non-interest income	166	(11)	(6.21%)	177	0	0.00%	177
Total non-interest income	\$3,201	(\$1)	(0.03%)	\$3,202	\$194	6.45%	\$3,008

Flat non-interest income in the second quarter of 2014 is a result of offsetting variances. Mortgage banking income experienced a significant decrease of 31.6% or approximately \$145,000 due to overall lower volumes of both purchase and refinance activity as the overall industry continues to be sluggish because of the significant new regulatory burdens that became effective in January 2014. Decreased mortgage banking income was offset by reduced losses on sale of other real estate compared to the prior year. Losses on sale or write down of other real estate totaled approximately \$22,000 during the quarter ended June 30, 2014 compared to approximately \$150,000 for the same period in 2013. Fluctuations in other categories were not significant when comparing second quarters of 2014 and 2013.

Income from WAFCI was included in Income from Insurance Activities in the Consolidated Statements of Income. Non-interest income generated by WAFCI for the second quarter of 2014 and 2013 totaled approximately \$207,000 and \$219,000, respectively. Income from insurance activities also includes commissions from sale of credit life policies and First Citizens' proportionate share of income (loss) from First Citizens National Bank's other 50% owned insurance agency.

No other-than-temporary impairment losses were recognized in the three or six months ended June 30, 2014 and 2013.

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The following table compares non-interest expense for the second quarter of 2014, 2013 and 2012 (dollars in thousands):

	Total	<u>Increase (Decrease)</u>		Total	<u>Increase (Decrease)</u>		Total
	2014	Amount	%	2013	Amount	%	2012
Salaries and employee benefits	\$4,865	\$205	4.40%	\$4,660	\$375	8.75%	\$4,285
Net occupancy expense	440	77	21.21%	363	(75)	(17.12%)	438
Depreciation	491	8	1.66%	483	35	7.81%	448
Data processing expense	493	76	18.23%	417	(43)	(9.35%)	460
Legal and professional fees	216	94	77.05%	122	45	58.44%	77
Stationary and office supplies	65	12	22.64%	53	(7)	(11.67%)	60
Amortization of intangibles	10	0	0	10	(4)	(28.57%)	14
Advertising and promotions	218	(24)	(9.92%)	242	70	40.70%	172
Premiums for FDIC insurance	165	(33)	(16.67%)	198	39	24.53%	159
Expenses related to other real estate owned	71	(81)	(53.29%)	152	37	32.17%	115
ATM related fees and expenses	331	(64)	(16.20%)	395	132	52.17%	253
Other expenses	1,118	(10)	(0.89%)	1,128	146	14.87%	982
Total non-interest expense	\$8,483	\$260	3.16%	\$8,223	\$750	10.05%	\$7,463

Non-interest expense represents operating expenses of First Citizens and increased approximately \$260,000 or 3.2% in the second quarter of 2014 compared to the second quarter of 2013. Salary and benefits expense is the largest component of non-interest expense and increased approximately \$205,000 or 4.4% from the second quarter of 2014 to the second quarter of 2013. Significant expense associated with salaries and benefits is consistent with First Citizens' strategic plan to hire and retain high quality employees to provide outstanding customer service and strive for exceptional shareholder returns. Expenses increased in 2014 and 2013 due to a combination of pay increases to existing employees, increased cost of employee benefits including health insurance, contributions to retirement plans and incentive plans. Increased expense in the second quarter of 2014 is also due to First Citizens' continued strategy to invest in new hires necessary to achieve expansion and growth goals, absorb regulatory burdens and plan for succession.

Net occupancy expense increased approximately 21% from the second quarter of 2013 to the second quarter of 2014 due to a combination of negative expense trends in various occupancy expenses including but not limited to utilities, maintenance and insurance.

Data processing (which includes computer services) expense increased approximately \$76,000 or 18% in the second quarter of 2014 compared to the second quarter of 2013 as resources required with respect to current technology and data processing functions, network security and maintenance continue to increase on an annual basis. Data processing is and will continue to be a significant component of non-interest expense as a result of strategic efforts to ensure integrity and security of customer data, industry trends and practices to utilize electronic delivery channels and in order to comply with ever increasing regulatory burdens.

Legal and professional fees totaled approximately \$216,000 and \$122,000 in second quarter 2014 and 2013, respectively. These fees relate to legal costs associated with the proposed merger and the normal course of business including but not limited to collection efforts on loans and consulting on corporate matters such as regulatory compliance. The increase from 2013 to 2014 is primarily attributable to expenses incurred related to the pending merger with SHB.

Other real estate expense for the second quarter of 2014 was approximately \$71,000 compared to approximately \$152,000 in the second quarter of 2013. The trend of declining expense is consistent with the declining trend in the overall volume of other real estate. See Other Real Estate section below for additional information.

No impairment of goodwill has been recorded for the current and prior reportable periods. Core deposit intangible expense for the current reportable quarter was flat at approximately \$10,000. Quarter-to-date advertising, community relations, and other forms of marketing expenses were approximately \$218,000 or 2.57% of other non-interest expense in the second quarter of 2014 compared to approximately \$242,000 or 2.95% of total non-interest expense in the second quarter of 2013. All marketing or advertising items are expensed at the time they are incurred.

Investment Securities

Investment securities are primarily held in First Citizens National Bank's subsidiary, First Citizens Investments, Inc. and in its subsidiary, First Citizens Holdings, Inc. First Citizens National Bank has a portfolio advisory agreement with a third party vendor to manage the investment portfolio. Quarterly average rates for taxable securities for the second quarter of 2014 increased 24 basis points while tax exempt securities decreased three basis points compared to the second quarter of 2013. Changes in the yield curve and market rates over the past year resulted in First Citizens being able to reinvest cash flows from the portfolio in 2014 at rates that meet or exceed that of existing yields as they mature and are repaid. The investment portfolio is heavily weighted in agency mortgage-related securities, which accounted for approximately 67% of the total portfolio. Management's goal continues to be to steadily maintain or improve the quality of the investment portfolio without taking on material risk.

Pledged investments reflect a market value of \$225 million as of June 30, 2014.

The carrying value of investment securities as of June 30 for each of the years indicated were as follows (in thousands):

	2014	2013	2012	2011	2010
U.S. Treasury and government agencies	\$300,166	\$311,495	\$291,208	\$213,583	\$170,206
State and political subdivisions	146,689	122,672	116,441	110,244	92,222
All other	52	1,241	661	606	1,949
Total investment securities	\$446,907	\$435,408	\$408,310	\$324,433	\$264,377

Investments are classified according to management's intent under GAAP. There are no securities classified in the trading category for any period presented in this report. Also, there were no securities in the trading or held-to-maturity categories as of June 30, 2014 or December 31, 2013. Amortized cost and fair market value of available-for-sale securities as of June 30, 2014 and December 31, 2013 were as follows (in thousands):

	Amortized Cost	Fair Value
<u>As of June 30, 2014:</u>		
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$302,091	\$300,166
Obligations of states and political subdivisions	138,920	146,689
All other	10	52
Total investment securities	\$441,021	\$446,907
<u>As of December 31, 2013:</u>		
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$326,272	\$321,703
Obligations of states and political subdivisions	130,813	134,751
All other	23	71
Total investment securities	\$457,108	\$456,525

AOCI reflects \$5.9 million net unrealized gain on securities on a pre-tax basis or \$3.6 million on a net of tax basis as of June 30, 2014. During second quarter 2014, net unrealized gains on securities (net of tax) increased \$4.0 million from year end 2013 primarily due to modest increase in overall market values of securities held in the portfolio and relative to the variance in 10-year Treasury yields during that timeframe.

In the first two quarters of 2013 and 2014, First Citizens implemented strategies to realize a portion of unrealized gains on the investment portfolio. In the second quarter of 2013, First Citizens sold three bonds totaling \$10.9 million with a realized gain on sale of approximately \$28,000. In June 2014, First Citizens sold four bonds totaling \$9.1 million with a realized gain on sale of approximately \$80,000. Reinvestment of proceeds from these sales was split with about 70% reinvested into agency MBS and CMO and the remaining 30% into municipal securities consistent with First Citizens' overall investment strategy. The effect of these transactions had little impact to the overall risk profile of the portfolio in terms of yield, duration, average maturity and other key metrics.

First Citizens continues to employ a strong due diligence process on securities purchases and factors considered include but are not limited to type of security, diversification among and within portfolio sectors, internal policy limits, credit quality of issuer and/or underlying collateral, ratings, yield, duration, expected life, and maturity date.

First Citizens held no derivative positions as of June 30, 2014 or December 31, 2013.

Loans

The following table sets forth total loans held for investment net of unearned income by category as of June 30 for the years indicated (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Commercial, financial and agricultural	\$97,627	\$ 95,979	\$ 89,741	\$ 75,836	\$ 82,388
Real estate-construction	48,728	41,674	37,665	45,416	55,433
Real estate-mortgage	427,862	410,588	386,759	404,492	401,261
Installment loans to individuals	24,378	25,273	26,757	29,903	32,021
Other loans	12,638	11,617	4,401	4,404	4,552
Total loans	\$611,233	\$585,131	\$545,323	\$560,051	\$575,655

Loans increased \$31.0 million from December 31, 2013 to June 30, 2014 and increased \$26.1 million from June 30, 2013 to June 30, 2014. Real estate loans increased \$24.3 million from June 30, 2013 to June 30, 2014. Commercial, financial and agricultural loans combined increased \$1.6 million when comparing June 30, 2014 to June 30, 2013. Loan demand improved during 2013 and has continued to improve through June 2014 after loans had been on a declining trend from 2010 through 2012.

The loan portfolio was heavily weighted in real estate loans, which accounted for approximately \$477 million or 78% of total loans as of June 30, 2014. Commercial and residential construction loans comprised \$49 million or 8.0% of the total loans as of June 30, 2014. Although the portfolio was heavily weighted in real estate, First Citizens National Bank did not and does not invest in sub-prime or non-traditional mortgages. Within real estate loans, residential mortgage loans (including residential construction and home equity lines of credit) was the largest category comprising 32% of total loans. Diversification of the real estate portfolio is a necessary and desirable goal of First Citizens' real estate loan policy. In order to achieve and maintain a prudent degree of diversity, given the composition of the market area and the general economic state of the market area, management of First Citizens intends to maintain real estate loan portfolio diversification. Risk monitoring of commercial real estate concentrations is performed in accordance with regulatory guidelines and includes assessment of risk levels of various types of commercial real estate and review of ratios of various concentrations of commercial real estate as a percentage of capital.

The aggregate amount of loans First Citizens is permitted to make under applicable bank regulations to any one borrower is 15% of unimpaired capital. First Citizens National Bank's legal lending limit at June 30, 2014 was \$18.2 million. Although First Citizens National Bank's legal lending limit has been in excess of \$10 million for several years, First Citizens National Bank rarely extends credit in excess of \$7 million to one borrower. There were no material reportable contingencies as of June 30, 2014.

Agricultural Loans

First Citizens is one of the largest agriculture lenders in the State of Tennessee and is the only preferred FSA community bank lender in Tennessee. Agriculture makes a significant contribution to commerce of First Citizens' core market in Dyer County, Tennessee, generating over \$100 million in revenue on an annual basis. Agricultural credits including loans secured by farmland and loans to finance agricultural production comprise \$99 million of total loans as of June 30, 2014 compared to \$79 million as of December 31, 2013 and \$95 million as of June 30, 2013. Net loans charged off in this category totaled approximately \$3,000 or less during the second quarter of 2014, the second quarter of 2013 and for the year ended December 31, 2013.

Non-Performing Loans and Allowance for Loan Losses

Non-accrual loans totaled \$6.6 million as of June 30, 2014 compared to \$8.4 million as of December 31, 2013 and \$10.2 million as of June 30, 2013. The improving trend of non-accrual loans is because of stable overall credit quality. However, non-accrual balances include a small volume of higher balance loans for which the resolution process has been delayed primarily due to lengthy bankruptcy processes. Also, another contributing factor to the level of non-accrual loans is that while some non-accrual loans are paying and showing improvements, those loans

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have not yet been on a paying status for long enough or shown enough financial improvement to return to full accrual status. These loans were primarily identified as problem loans and placed on non-accrual status in previous years. The volume of newly identified problem loans has stabilized in recent quarters resulting in an overall reduced level of non-accruals and a manageable level of charge offs.

Non-current loans at second quarter end 2014 were 1.35% of total loans compared to 1.40% as of year-end 2013 and 1.80% as of the second quarter of 2013. Non-performing loans have been in the range of 1-2% of total loans over the past five years.

The allowance for loan losses totaled 1.28% as of June 30, 2014 compared to 1.34% as of December 2013 and 1.34% as of June 30, 2013. An analytical model based on historical loss experience, current trends and economic conditions as well as reasonably foreseeable events is used to determine the amount of provision to be recognized and to test the adequacy of the loan loss allowance. Loans charged off net of recoveries totaled approximately \$386,000 and \$634,000 for the six months ended June 30, 2014 and 2013, respectively. Loans charged off net of recoveries totaled approximately \$338,000 and \$513,000 for the three months ended June 30, 2014 and 2013, respectively.

See also Note 6 and 7 to the FCB CONSOLIDATED FINANCIAL STATEMENTS for additional information regarding the loan portfolio and the allowance for loan losses.

Other Real Estate

The book value of OREO was \$5.8 million as of June 30, 2014 and \$6.8 million at December 31, 2013.

As of June 30, 2014, there were approximately 70 properties in OREO consisting primarily of residential lots, land for development and other commercial purpose properties. Approximately 91% of the \$5.7 million in OREO is located in Shelby County, Tennessee and surrounding counties. Management continues efforts to market and liquidate OREO with minimal losses.

Accounting for adjustments to the value of OREO when recorded subsequent to foreclosure is accomplished on the basis of an independent appraisal. The asset is recorded at the time of foreclosure at the lesser of its appraised value or the loan balance. Any reduction in value at the time of acquisition of the property is charged to the allowance for loan losses. All other real estate parcels are appraised annually and the carrying value adjusted to reflect the decline, if any, in its realizable value. Write-downs subsequent to foreclosure and gains or losses on the sale of OREO are reported in Loss on Sale of Foreclosed Property in the Non-Interest Income section of the Consolidated Income Statements. Net losses on sale or writedown of OREO for the second quarter of 2014 totaled approximately \$22,000 compared to net losses approximately \$150,000 for the second quarter of 2013.

Other real estate expenses totaled approximately \$71,000 in the second quarter of 2014 compared to approximately \$152,000 in the second quarter of 2013. Other real estate expenses consist of expenses related to owning the property such as property taxes, insurance, property improvements and maintenance costs.

Activity in OREO for the three months ended June 30, 2014, 2013 and 2012 consisted of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Beginning balance	\$5,948	\$ 8,508	\$10,832
Acquisitions	1,353	78	243
Capitalized costs	18	-	-
Dispositions	(1,542)	(188)	(243)
Valuation adjustments through earnings	(22)	(150)	(253)
Ending balance	\$5,755	\$ 8,248	\$10,579

Capital Resources

Management of shareholder equity in a highly regulated environment requires a balance between leveraging and return on equity while maintaining adequate capital amounts and ratios. Total capital increased 4.1% during the second quarter 2014 to \$122.0 million. The increase in capital consists of an increase in unrealized gains on available-for-sale securities as well as undistributed net income. First Citizens has historically maintained capital in excess of minimum levels established by the Federal Reserve Board. Total risk-based capital ratio as of June 30, 2014 was 17.8%, significantly in excess of the 10% mandated by regulatory guidelines to be considered a well-capitalized institution. Total equity to assets was 9.74% as of June 30, 2014 compared to 9.59% as of December 31, 2013.

Dividends per share were \$0.25 per share per quarter in the second quarter of 2014 and 2013. First Citizens continues to pursue a conservative dividend strategy as part of its management's strategic efforts to maintain a strong capital base. The dividend payout ratio was 12.4% in the second quarter of 2014 compared to 13.4% in the second quarter of 2013. Management of First Citizens anticipates continuing to pay quarterly dividends of \$0.25 per share in 2014 and will consider a special dividend contingent on First Citizens' actual and projected earnings and capital levels in December 2014. The dividend payout ratio for the year ending December 31, 2014 is expected to be in the range of 30-35%, consistent with the prior year.

During the quarter ended June 30, 2014, First Citizens repurchased 631 shares of its own common stock for an aggregate cost of \$28,200.00 and weighted average per share cost of \$44.71. First Citizens did not repurchase any of its own stock during the year ended December 31, 2013. First Citizens also has not sold shares of its own stock in the open market during second quarter 2014 or during the year ended December 31, 2013. First Citizens has no formal plans or programs in place to repurchase common stock.

Liquidity

Liquidity is managed to ensure there is ample funding to satisfy loan demand, investment opportunities, and large deposit withdrawals. First Citizens' primary funding sources include customer core deposits, FHLB borrowings, other borrowings and correspondent borrowings. Customer based deposits accounted for 89% of the funding as of June 30, 2014 and 91% as of year-end 2013. As of both June 30, 2014 and December 31, 2013, First Citizens had \$23 million in deposit funds from the State of Tennessee.

First Citizens National Bank participates in Certificate of Deposit Account Registry Service (CDARS). CDARS is a deposit placement service that allows First Citizens National Bank to accept very large-denomination certificates of deposit (CDs) (up to \$50,000,000) from customers and ensures that 100% of those CDs are FDIC-insured. Participating in this network enhances First Citizens National Bank's ability to attract and retain large-denomination depositors without having to place them in a Sweep or Repurchase Agreement. The CDARS network provides a means to place reciprocal deposits for First Citizens National Bank's customers, purchase time deposits (referred to as One-Way Buy deposits) or to sell excess deposits (referred to as One-Way Sell deposits). One-Way Buy deposits are structured similar to traditional brokered deposits. First Citizens National Bank held reciprocal deposits and One-Way Buy deposits in the CDARS program totaling \$10.2 million as of June 30, 2014 compared to \$13.3 million as of June 30, 2013 and \$8.4 million as of December 31, 2013. CDARS accounts are classified as brokered time deposits for regulatory reporting purposes.

First Citizens National Bank's liquidity position continues to be stable with steady deposit growth coupled with ample cash balances and interest bearing deposits in other banks which combined totaled \$49.9 million as of June 30, 2014. First Citizens National Bank's available-for-sale investment securities also serve as a source of liquidity if needed as the securities could be sold or pledged as collateral as needed for funding needs.

Securities sold under agreements to repurchase increased \$1.0 million in the second quarter of 2014. Borrowed funds from the FHLB totaled \$49.3 million or 4.6% as of June 30, 2014 compared to \$40.8 million or 3.8% of total funding as of December 31, 2013. The increase in borrowings is a result of the addition of two borrowings from FHLB during the quarter ended June 30, 2014.

Appropriate liquidity risk management remains a high priority for management of First Citizens. First Citizens' liquidity position is strengthened by ready access to a diversified base of wholesale borrowings. These include correspondent borrowings, federal funds purchased, securities sold under agreements to repurchase, FHLB advances, brokered certificates of deposit, and others. Rates on wholesale borrowing sources including FHLB advances, overnight federal funds purchased, and brokered deposits continue to be funding sources that offer attractive pricing in the current environment.

As of June 30, 2014, First Citizens National Bank has available lines of credit for federal fund purchases totaling \$54.5 million with four correspondent banks as well as additional borrowing capacity of \$92.2 million with FHLB.

First Citizens maintains a crisis contingency liquidity plan at the bank and holding company level to defend against any material downturn in its liquidity position.

Interest Rate Risk

First Citizens National Bank maintains a formal asset and liability management process to quantify, monitor and control interest rate risk. The Funds Management Committee strives to maintain stability in net interest margin assuming various interest rate cycles. Multiple strategies are utilized to reduce interest rate risk and include but are not limited to the following: use of FHLB borrowings, shortening or lengthening the re-pricing date of loans and/or time deposits depending on the current rate environment, managing overnight borrowings exposure, use of interest rate swaps, and increased mortgage-related investments securities to provide constant cash inflows. As of June 30, 2014, First Citizens is in a liability sensitive position in which First Citizens would likely experience a dilution in net interest margin in a rising rate environment. Interest rate risk exposures are well within policy limits. Net interest margins trends have been stable in the range of 3.78% to 3.90% the past six quarters.

The current interest rate environment and condition of the financial markets creates a unique scenario with attributes that are difficult to quantify in traditional models. Management is aware of such issues and attempts to implement conservative and realistic assumptions as much as possible. Models are back-tested and run under various scenarios to help assist in validating such assumptions. One example of the uniqueness of this environment is an inability to factor into quantitative models the impact of irrational pricing of retail deposits that has and may continue to occur when interest rates begin rising in the future. In an upward rate environment, First Citizens National Bank may find that competitive pressures force greater rate increases than seen in historical trends and traditional rate shock scenarios and may also hinder the ability to push rates any lower in a prolonged low rate environment. See also [INFORMATION ABOUT FIRST CITIZENS - Interest Rate Sensitivity](#) below for additional discussion of interest rate risk.

Interest Rate Sensitivity

Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. Overnight federal funds, on which rates change daily, and loans which are tied to the prime rate are much more sensitive than long-term investment securities and fixed rate loans. The shorter-term interest sensitive assets and liabilities are key to measurement of the interest sensitivity gap. Minimizing this gap is a continual challenge and a primary objective of the asset/liability management program.

First Citizens monitors and employs multiple strategies to manage interest rate risk and liquidity continuously at acceptable levels. Such strategies include but are not limited to use of FHLB borrowings, floors on variable rate loans, use of interest rate swaps and investments in mortgage-backed investments that enable First Citizens to have steady cash inflows.

First Citizens' net interest margin has been in the range of 3.75% to 4.10% over the past ten years and was 3.83% in 2013 and 4.01% in 2012. The declining trend from 2012 to 2013 was a result of lower-yielding investment growth outpacing higher yielding loan growth during 2010 to 2012. In 2013, loan growth improved and reinvestment yields on investment securities stabilized resulting in a flattening of the margin in the range of 3.80% to 3.85% during 2013 and in first quarter 2014. As of December 31, 2013 and June 30, 2014, First Citizens' interest rate risk position was liability sensitive.

Interest rate risk is separated and analyzed according to the following categories of risk: (1) re-pricing; (2) yield curve; (3) option risk; (4) price risk; and (5) basis risk. Trading assets are utilized infrequently and are addressed in the investment policy. Unfavorable trends reflected in interest rate margins will cause an immediate adjustment to First Citizens National Bank's gap position or asset/liability management strategies. The data schedule below reflects a summary of First Citizens' interest rate risk using simulations. The projected 12-month exposure is based on different rate movements (flat, rising or declining).

The following condensed gap reports provide an analysis of interest rate sensitivity of earning assets and costing liabilities in a flat rate environment at December 31, 2013 and 2012 (dollars in thousands):

CONDENSED GAP REPORT

CURRENT BALANCES

DECEMBER 31, 2013

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Over 5</u>	<u>Total</u>
Assets:							
Total investments	\$ 73,545	\$ 50,835	\$ 49,323	\$47,477	\$50,001	\$185,344	\$ 456,525
Total net loans	360,235	77,486	59,411	38,496	13,227	23,563	572,418
Other earnings assets	33,017	-	-	-	-	22,466	55,483
Non-earning assets	-	-	-	-	-	90,046	90,046
Total assets	\$466,797	\$128,321	\$108,734	\$85,973	\$63,228	\$321,419	\$1,174,472
Liabilities:							
Non-maturity deposits	248,313	12,319	11,872	11,443	11,032	335,761	630,740
Time deposits	280,659	31,051	11,316	11,875	2,822	67	337,790
Total deposits	528,972	43,370	23,188	23,318	13,854	335,828	968,530
Total borrowings	49,159	2,009	7,010	7,010	7,119	15,668	87,975
Other liabilities	-	-	-	-	-	5,361	5,361
Equity	-	-	-	-	-	112,606	112,606
Total liabilities and equity	\$578,131	\$45,379	\$30,198	\$30,328	\$20,973	\$469,463	\$1,174,472
Period gap	\$(111,334)	\$82,942	\$78,536	\$55,645	\$ 42,255	\$(148,044)	\$ -
Cumulative gap	(111,334)	(28,392)	50,144	105,789	148,044	-	-
% of Total Assets	-9.5%	-2.4%	4.3%	9.0%	12.6%	0.0%	-%

CONDENSED GAP REPORT

CURRENT BALANCES

DECEMBER 31, 2012

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Over 5</u>	<u>Total</u>
Assets:							
Total investments	\$ 132,850	\$ 55,222	\$ 42,085	\$37,731	\$38,256	\$160,275	\$ 466,419
Total net loans	300,701	87,436	60,811	49,432	33,937	9,180	541,497
Other earnings assets	52,612	-	-	-	-	21,958	74,570
Non-earning assets	-	-	-	-	-	95,839	95,839
Total assets	\$486,163	\$142,658	\$102,896	\$87,163	\$72,193	\$287,252	\$1,178,325
Liabilities:							
Non-maturity deposits	243,996	11,340	10,932	10,540	10,165	317,165	604,138
Time deposits	296,404	34,590	9,742	9,187	10,711	67	360,701
Total deposits	540,400	45,930	20,674	19,727	20,876	317,232	964,839
Total borrowings	31,538	2,592	2,571	582	5,593	44,687	87,563
Other liabilities	-	-	-	-	-	11,783	11,783
Equity	-	-	-	-	-	114,140	114,140
Total liabilities and equity	\$571,938	\$48,522	\$23,245	\$20,309	\$26,469	\$487,842	\$1,178,325

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Period gap	\$(85,775)	\$94,136	\$79,651	\$66,854	\$ 45,724	\$(158,741)	\$ -
Cumulative gap	(85,775)	8,361	88,012	154,866	200,590	-	-
% of Total Assets	-7.3%	0.7%	7.5%	13.1%	17.0%	0.0%	-%

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Notes to the Gap Reports:

1. The gap report reflects the interest sensitivity positions during a flat rate environment. Time frames could change depending on whether rates rise or fall.
2. Re-pricing overrides maturities in various time frames.
3. Other earning assets consist of bank owned life insurance, interest bearing deposits in banks, fed funds sold, and FHLB and the Federal Reserve Bank stock.
4. Non-maturity deposits include both non-interest bearing demand deposits and interest bearing savings and transaction accounts. Non-maturity deposits are considered to be core and are spread among the one-year, two-year, three-year and greater than five-year categories for gap analysis based on characteristics of the various accounts and pricing strategies related to those accounts. Regular savings accounts are the least sensitive type of interest bearing account based on First Citizens' most recent non-maturity deposit study, which was completed as of December 31, 2013. First Rate, e-Solutions and Wall Street deposit products are more sensitive to rate changes and, therefore, are repriced more aggressively than regular savings and other less sensitive type deposit accounts.
5. Simulations are utilized to reflect the impact of multiple rate scenarios on net interest income at risk, net income at risk and economic value of equity at risk. Strategies are implemented to increase net interest income, while always considering the impact on interest rate risk. Overall, First Citizens National Bank manages the gap between interest rate sensitive liabilities to expand and contract with the rate cycle phase and to keep exposures within policy limits. First Citizens National Bank's Funds Management Committee is responsible for implementing and monitoring procedures to improve net interest income through volume increases and efficient pricing techniques.

First Citizens' interest rate risk position is currently and has been liability sensitive for the past three years. Therefore, net interest margins would be diluted slightly by increases in rates over the next 12 months under a normal interest rate environment. As of December 2013, federal funds rates remain at historical low ranges of 0.00% to 0.25%. Federal funds rates at this level do not have the capacity to decrease even 100 basis points. Therefore, in the interest rate risk models, the rates on federal funds and prime hit a floor of zero and 3.0%, respectively. The prime rate floor of 3% assumes that the normal spread between federal funds rates and prime is maintained and remains fixed at 300 basis points. While prime rate in the model reaches a floor of 3%, First Citizens National Bank's variable rate loan pricing carries an average floor in the range of 4.0 to 5.0%. As rates in the model are shocked, loans will decrease only until the floor position is reached while some liabilities continue to reprice downward. However, the variance between the flat rate scenario and the down rate shocks are negative as the current pricing of liabilities is historically low and has little room to trend downward beyond its current position. With federal funds rates currently between 0.00% to 0.25%, the down 100 basis points and down 200 basis point scenarios are the most unlikely scenarios. Scenarios for exposure in the up 100 basis points and up 200 basis points are considered more realistic. However, recent statements by the FOMC indicate that federal funds rates will mostly remain flat or increase gradually over the next one to two years.

These rate shock scenarios also indicate a negative variance because the upward scenarios indicate that deposits will reprice faster than loans and investments, especially given that most of the loans are currently at a floor and will require a more than 200-basis point increase in federal funds rates and prime rate before loan floors will increase.

First Citizens' exposure to interest rate risk is within established policy limits. The following table presents net interest income at risk as of December 31, 2013 projected over a 12-month exposure period and compared to First Citizens' internal policy limits (dollars in thousands):

Scenarios:	Rate Moves in Basis Points	Current Position	Possible Results	Variance	As % of Net Interest Income*	Policy Limit
Declining 1%	-100	\$36,918	\$36,625	\$-293	-0.79%	-15.00%
Declining 0.5%	-50	36,918	36,962	44	0.12%	-7.50%
Most Likely-Base		36,918	36,918	0	0	%
Rising 1%	100	36,918	35,786	-1,132	-3.07%	-7.00%
Rising 2%	200	36,918	34,576	-2,342	-6.34%	-15.00%
Rising 3%	300	36,918	33,330	-3,588	-9.72%	-20.00%
Rising 4%	400	36,918	32,053	-4,865	-13.18%	-25.00%

* Net interest income assumes that interest rates would change immediately within the total portfolio, a scenario which would reflect a worst case position and is unlikely to happen.

Emerging Growth Company Status

After filing the registration statement, of which this Proxy Statement/Prospectus is a part, First Citizens will be subject to periodic reporting requirements under the Exchange Act. First Citizens is an emerging growth company, as defined in the JOBS Act, however, and it may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, even if First Citizens complies with the greater obligations of public companies that are not emerging growth companies immediately after this offering, First Citizens may avail itself of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as it is an emerging growth company. First Citizens will remain an emerging growth company for up to five years, though First Citizens may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of such five year period, it is deemed to be a large accelerated filer under the rules of the SEC (which depends on, among other things, having a market value of common stock held by non-affiliates in excess of \$700 million) or if First Citizens total annual gross revenues equal or exceed \$1 billion in a fiscal year. First Citizens cannot predict if investors will find its stock less attractive because it will rely on these exemptions. If some investors find First Citizens stock less attractive as a result, there may be a less active trading market for First Citizens stock and First Citizens stock price may be more volatile.

Further, the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. First Citizens has elected to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, it will adopt the new or revised standard at the time public companies adopt the new or revised standard. This election is irrevocable.

Management of First Citizens

Directors

The following information relates to the directors of First Citizens, as of April 16, 2014:

Jeffrey D. Agee, Age 53

Director Since 2005

Mr. Agee serves as President and Chief Executive Officer of First Citizens and First Citizens National Bank. He previously served as Executive Vice President and Chief Financial Officer of First Citizens National Bank and Vice President and Chief Financial Officer of First Citizens from August 1999 to June 2004. Mr. Agee holds a bachelor's degree in accounting from the University of Tennessee and is a graduate of ABA Stonier Graduate School of Banking at Georgetown University and of BAI School of Bank Administration at University of Wisconsin. He is also a Certified Public Accountant (inactive) and certified through FINRA as holder of a Series 27 license. He serves as Financial and Operations Principal of First Citizens Financial Plus, Inc. (a wholly-owned subsidiary of First Citizens National Bank) and possesses an understanding of SEC rules and regulations, internal controls and financial reporting. He also currently serves on boards of directors of 16 community and professional organizations, including serving as chairman of the Tennessee Bankers Association.

Mr. Agee brings to the board of directors vast experience in banking, a strong financial background and commitment to our community.

Eddie E. Anderson, Age 67

Director Since 1984

Mr. Anderson is owner and operator of Anderson Farms and attended the University of Tennessee. He is member and Chairman of Board of Dyer County Fair Association and Vice Chairman of Agriculture Dyersburg/Dyer Chamber of Commerce. He has also served as past Chairman of Dyersburg/Dyer County Chamber of Commerce. Mr. Anderson currently serves as Chairman of the Tennessee State Committee for Farm Service Agency.

Mr. Anderson's institutional knowledge and longstanding service on the board of directors make him a qualified member of the board of directors.

J. Walter Bradshaw, Age 52

Director Since 1993

Mr. Bradshaw is Manager of Bradshaw & Company Insurors, an independent insurance agency. Mr. Bradshaw holds a bachelor's degree from University of Tennessee and law degree from the University of Memphis School of Law. He has served as past Chairman of Dyersburg/Dyer County Chamber of Commerce and is on the board of directors for Dyersburg Electric System. He is past President of Dyersburg Rotary Club, member and past President of Dyer County Fair Association and past President of Insurors of Tennessee.

Mr. Bradshaw brings strong and broad financial services experience to the board of directors as well as an understanding of our business and operations.

James Daniel Carpenter, Age 65

Director Since 1993

Mr. Carpenter retired as Managing Partner of Flatt Heating & Air Conditioning in 2011. He holds a bachelor's degree from the University of Tennessee. Mr. Carpenter previously served as Lending and Credit Manager for Dyersburg Production Credit Association and managed a farming operation for over 20 years. Mr. Carpenter has served as member of Dyer County Community Housing Board and past President of Newbern Rotary Club.

Mr. Carpenter brings a valuable lending background and strong knowledge of business to the board of directors through his successful operation of his own business.

Richard W. Donner, Age 63

Director Since 1985

Mr. Donner is President of Trenton Mills, a textile manufacturing facility, and attended the University of Tennessee. Mr. Donner previously served as Vice President of Sales and Marketing at Dyersburg Fabrics. He is also the owner/operator of a livestock farm in Dyer County. Mr. Donner has served as chair of annual fund drives for Boy Scouts of America, Girl Scouts of America and West Tennessee Heart Fund.

Mr. Donner possesses strong business experience as well as a commitment to the success of First Citizens, as shown by his 29 years of service on the board of directors and various committees.

Larry W. Gibson, Age 67

Director Since 1995

Mr. Gibson is owner and Chairman of Roberts-Gibson, Inc., a gasoline jobber company. He is past President and Co-Chair of Executive Committee of Dyer County Fair Board and has served on the Tennessee State Fair board of directors. He is past President of Tennessee State Fair Association, past President of Dyer County Young Farmers & Homemakers and past President of Dyer County Ducks Unlimited. He has also previously served on Foundation Board of Dyersburg State Community College and is a former member of Dyersburg/Dyer County Chamber of Commerce board of directors. He also serves on the Board of Crime Stoppers.

Mr. Gibson brings entrepreneurial and business building skills and experience to the board of directors, having successfully managed his own business and served on other boards.

Christian E. Heckler, Age 46

Director Since 2006

Mr. Heckler was appointed Executive President of Retail Banking in April 2014. He previously served as Regional President of the Southwest Region for First Citizens National Bank from April 2006 to April 2014 and Community Bank President and Commercial Lender from 2002 to 2006. Mr. Heckler earned a bachelor's degree in business administration from the University of Tennessee and is a 2007 graduate from the Graduate School of Banking from Louisiana State University. He also served as Vice President/Commercial Lending for Renasant Bank from 2000 to 2003 and Vice President/Commercial Lending of Trustmark National Bank from 1998 to 2000. He also serves as Chairman of the board of directors for Millington YMCA, on the Memphis Metro board of directors and as Tipton County Fundraising Campaign Chair for Dyersburg State Community College.

Mr. Heckler brings to the board experience in banking, commercial lending and business development.

Ralph E. Henson, Age 72

Director Since 1997

Mr. Henson previously served as Chief Credit Officer of First Citizens National Bank from February 1993 to December 31, 2006, at which time he transitioned to part-time employment through December 31, 2011. Mr. Henson holds a bachelor's degree from the University of Tennessee and has approximately 50 years of experience in commercial banking. He has served as Managing Partner of a commercial real estate company. He has also served as member of the Northwest Tennessee Regional Port Authority board of directors and as member of the Dyer County Industrial Development Board.

Mr. Henson possesses extensive experience in commercial lending and real estate and has contributed to our success, demonstrated by his many years of service to First Citizens as an employee and director.

Barry T. Ladd, Age 73

Director Since 1996

Mr. Ladd is retired and previously served as Executive Vice President and Chief Administrative Officer of First Citizens and First Citizens National Bank from January 1996 to December 31, 2006. Prior to his service as Executive Vice President of First Citizens National Bank, he also served as Branch Manager and Lending Officer of First Citizens National Bank and as Commercial Lending Officer of First Citizens National Bank. He earned a bachelor's degree and master's degree in business from the University of Tennessee. He is a graduate of School of Banking of the South. He also previously served as Technical Representative for Shell Chemical Company, Account Production Officer for Security Bank and as Partner in family farming/cattle operation business. He has served as Chairman of Newbern Industrial board of directors and on the boards of directors of Newbern Housing Authority and Dyer County Community Housing.

Mr. Ladd possesses extensive banking knowledge, experience in commercial lending and business development and institutional knowledge regarding operations of First Citizens National Bank.

John M. Lannom, Age 60

Director Since 1999

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Mr. Lannom is an attorney in private practice in Dyersburg, Tennessee. He also serves as Board Chairman and Chief Executive Officer of Forcum-Lannom, Inc. He earned a bachelor's degree from Vanderbilt University and his law degree from University of Memphis School of Law. He also serves as Secretary of Forcum Lannom Contractors, LLC and on the boards of directors for Dyer County Adult Education, Dyersburg State Community College Foundation, Dyer County United Way and Dyersburg/Dyer County Chamber of Commerce. He is also past Chairman of Dyersburg/Dyer County Chamber of Commerce.

Mr. Lannom brings an extensive legal background, executive decision-making and risk assessment skills to the board of directors. He has also served on the boards of directors of other corporations and charitable organizations.

Judy Long, Age 60

Director Since 2011

Ms. Long has served as Executive Vice President for First Citizens and Executive Vice President and Chief Operating Officer of First Citizens National Bank since August 1999. Ms. Long previously served as Corporate Secretary of First Citizens from 1997 until September 2011, at which time she was appointed to the board of directors of First Citizens National Bank. Ms. Long previously served as Senior Vice President and Chief Operating Officer of First Citizens and First Citizens National Bank from 1997 to 1999, Senior Vice President and Administrative Officer from 1996 to 1997 and Vice President and Loan Operations Manager from 1992 to 1996. Ms. Long has been employed by First Citizens since July 1974. Ms. Long holds a bachelor's degree in business administration with a major in finance from Union University and is a graduate of the Mid-South School of Banking, the School for Bank Administration, BAI Graduate School of Bank Operations and Technology, and Dyersburg/Dyer County Leadership and Weststar Leadership programs. In addition, she serves on the board of directors for Fidelity National Information Systems Charter Bank Group, the board of directors of NACHA – The Electronic Payments Association and Chairperson of Tennessee Bankers Technology Conference Advisory Committee. Ms. Long has also served various civic organizations such as Rotary – Past President, American Cancer Society, Leukemia Society of Tennessee, Life Choices, Dyersburg State Community College Annual Fund Campaign and Dyer County Agricultural Committee.

Ms. Long's extensive experience in bank operations and technology has contributed to our success, demonstrated by her many years of service as a member of executive management and as Corporate Secretary to First Citizens. She has also served on the boards of directors of other corporations and civic organizations.

Milton E. Magee, Age 77

Director Since 1969

Mr. Magee is retired from Chic Farm Co., a general farming operation. He is Partner of Magee and Taylor Family Limited Partnership and T&M FLP. He earned a bachelor's degree in agriculture from the University of Tennessee. He is a member and Chairman of Dyer County Commission. He has also served on the Finance Committee of Dyer County Commission. He is a member of the board of directors of Baptist Memorial Health Care Corporation in Memphis, Tennessee and has served as past and incoming Chairman of that corporation.

Mr. Magee brings leadership, business knowledge and executive decision-making skills to the board of directors through his 45 years of service on the board of directors as well as service on other boards.

Allen G. Searcy, Age 72

Director Since 1999

Mr. Searcy is Vice President of Allen Searcy Builder-Contractor, Inc., President of Crestwood Development Corporation, Vice President of Building Solutions, Inc., and Vice President of Latimer & Searcy Investments, Inc. Mr. Searcy attended the University of Tennessee.

Mr. Searcy brings executive decision-making, leadership and risk assessment skills to the board of directors as a result of his experience in the construction industry. His experience in real estate development and construction is especially important to the board of directors as we manage through the current economic recession, much of which is real estate driven.

Green W. Smitheal, Age 58

Director Since 1993

Mr. Smitheal is Managing Partner of Smitheal Farms. He earned a bachelor's degree in agriculture economics from University of Tennessee. He also serves as Managing Partner of Biesel & Smitheal Farming Partnership. He served on the Advisory Board for Boy Scout Troop 88 and participated in the Annual Fund Drive for West Tennessee Area Council of Boy Scouts of America. He is also a member of Dyer County Ag Committee.

Mr. Smitheal brings entrepreneurial, business building skills and experience to the board of directors, having successfully managed his own business. His expertise in agriculture is also helpful, given the size of First Citizens National Bank's agricultural loan portfolio.

Larry S. White, Age 65

Director Since 1997

Mr. White is President of White & Associates Insurance Agency, Inc., a general insurance agency offering all lines of insurance, and Managing Partner of First Citizens/White and Associates Insurance Company (50% owned subsidiary of First Citizens National Bank). He earned a bachelor's degree in business from the University of Tennessee. He is President of Home Health Company and serves on Dyersburg State Community College Foundation Board and Dyersburg/Dyer County Chamber of Commerce Board. He is past President and member of Dyersburg Rotary Club and past President of Dyersburg Lions Club. He has also served as Chairman of Dyersburg Regional Medical Center.

Mr. White has extensive business knowledge and experience in the insurance industry and experience serving on other boards of directors. His commitment to our success is also demonstrated by his service as Managing Partner of First Citizens National Bank's 50% owned insurance subsidiary.

Dwight Steven Williams, Age 58

Director Since 1991

Mr. Williams is owner and President of Johnson-Williams Funeral Home, Inc. and a member of West TN Golf, LLC. He holds a bachelor's degree in agriculture business from the University of Tennessee and a B.A. in mortuary science from Northwest Mississippi School of Mortuary Science. He has a State Board Certification as a licensed Funeral Director and Embalmer. He is manager of a farming and land management operation. Mr. Williams serves on the Workforce Development Board, Dyer County High School Advisory Board, Newbern Lions Club, Fellowship of Christian Athletes Board, and as Chairman of the Newbern Housing Authority. Mr. Williams also serves as President of the Newbern Industrial Corporation.

Mr. Williams brings entrepreneurial and business building skills and experience to the board of directors, having successfully managed his own business.

Katie S. Winchester, Age 73

Director Since 1990

Ms. Winchester serves as Chairman of First Citizens and First Citizens National Bank. She previously served as President of First Citizens and First Citizens National Bank from 1992 to 2006 and Chief Executive Officer and Vice Chairman of First Citizens and First Citizens National Bank from 1996 to April 2007. She served as Past Chairman of the Tennessee Higher Education Commission and Past Chairman of Baptist Memorial Health Care Corporation in Memphis, Tennessee. She served as a Member of Federal Advisory Council for the Federal Reserve Board in Washington, D.C. in 2000, 2001 and 2002. She is also a member of the boards of directors for Dyersburg State Community College Foundation Board, United Way of Dyer County, Dyer County Adult Education and Tennessee Vocational Rehabilitation (Dyersburg).

As our previous Chief Executive Officer, Ms. Winchester brings deep institutional knowledge and perspective to the board of directors regarding our strengths, challenges and opportunities. She also provides governance and community-service skills and experience gained through her service on the boards of various companies and charities.

Joseph S. Yates, Age 51

Director Since 2005

Mr. Yates is President and Chief Executive Officer of General Appliance & Furniture Co., a retail furniture and appliance outlet. He earned a bachelor's degree in business from the University of Tennessee and is past Chairman of Dyersburg/Dyer County Chamber of Commerce. He has also served as Chairman of Dyersburg City Schools Board, member and Chairman of Dyersburg Downtown Association, and member of board of directors for Dyersburg/Dyer County Chamber of Commerce.

Mr. Yates brings business management skills and experience to the board of directors, having successfully managed his own business.

Executive Officers

The following information relates to the executive officers of First Citizens, as of April 16, 2014:

Jeffrey D. Agee, Age 53

Executive Officer Since 1999

See INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens - Directors for biographical information with respect to Mr. Agee.

Sherrell Armstrong, Age 51

Executive Officer Since 2003

Mr. Armstrong has served as Executive Vice President of First Citizens and Executive Vice President and Chief Credit Officer for First Citizens National Bank since January 1, 2007. Mr. Armstrong previously served as Executive Vice President and Loan Administrator of First Citizens National Bank from 2003 to 2007. He also served as Senior Vice President of First Citizens National Bank from 2002 to 2003 as well as a Vice President and Commercial Lender of First Citizens National Bank from 1997 to 2002. Mr. Armstrong has been employed by First Citizens National Bank since June 1997.

Laura Beth Butler, Age 38

Executive Officer Since 2009

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Ms. Butler has served as Executive Vice President and Chief Financial Officer for First Citizens and First Citizens National Bank since April 2009. Ms. Butler was appointed Corporate Secretary of First Citizens and First Citizens National Bank in September 2011. Ms. Butler previously served as Senior Vice President and Chief Financial Officer from June 2004 to April 2009. Ms. Butler is a Certified Public Accountant and previously served as Senior Audit Manager of the banking practice of a local accounting firm from 2000 to 2004.

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Christian E. Heckler, Age 46

Executive Officer Since 2006

See INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens - Directors for biographical information with respect to Mr. Heckler.

Judy Long, Age 60

Executive Officer Since 1999

See INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens - Directors for biographical information with respect to Ms. Long.

Katie S. Winchester, Age 73

Executive Officer Since 1996

See INFORMATION ABOUT FIRST CITIZENS - Management of First Citizens - Directors for biographical information with respect to Ms. Winchester.

Corporate Governance

Director Independence

The Corporate Governance Committee of the board of directors of First Citizens National Bank has determined that a majority of our directors are independent, as that term is defined below. The Corporate Governance Committee has determined that Messrs. Agee and Heckler and Mss. Long and Winchester are not independent, because each is an employee of First Citizens National Bank. Mr. Henson is also considered not independent because he served as Executive Vice President of First Citizens National Bank until December 31, 2010 and continues to provide real estate consulting services to First Citizens National Bank. Although Mr. White meets the criteria defined below for independence, the Corporate Governance Committee does not consider Mr. White to be independent because he serves as Managing Partner of First Citizens/White and Associates Insurance Company, which is a 50% owned subsidiary of First Citizens National Bank. The Corporate Governance Committee annually reviews relationships that exist between First Citizens and each director and his or her related interests for the purpose of determining whether the director is independent. The full board conducts this review on directors serving as members of the Corporate Governance Committee. A director is presumed to be independent unless the director (or his or her immediate family members):

- ◆ Has been an employee or executive of First Citizens at any time during the last three years;
- ◆ Has been an employee or partner of First Citizens independent registered public accounting firm at any time during the last three years;
- ◆ Is an owner, partner, employee or director of an entity with material relationships (i.e., makes payments to, or receives payments from, First Citizens which exceed the greater of \$1 million or 2% of the entity's gross revenues) with First Citizens, either as a vendor or customer, except in situations where revenues are generated as a result of a competitive bid process in which the board determines the business relationship is in the best interest of First Citizens; or
- ◆ Receives more than \$100,000 per year in direct compensation from First Citizens, other than director and related fees.

These independence standards can also be found in the [About Investor Relations Governance Guidelines Director Independence](#) section of our website at www.FirstCNB.com. The Corporate Governance Committee does not consider any additional transactions below the threshold amount of \$100,000 in determining whether any director is independent.

Compensation Committee Interlocks and Insider Participation

The Corporate Governance/Nominating/Compensation Committee consists of five directors: Milton Magee, John Lannom, Allen Searcy, Richard Donner and Steve Williams. No member of this committee has at any time been an officer or employee of First Citizens, First Citizens National Bank or any of its subsidiaries and all are considered independent based on guidelines described above. None of our executive officers serves, or in the past year served, as a member of the board of directors or compensation committee of any entity that has or had one or more of its executive officers serving on our board of directors or the Corporate Governance/Nominating/Compensation Committee.

Security Ownership of Certain Beneficial Owners and Management of First Citizens

The table below sets forth, as of June 30, 2014, the beneficial ownership of First Citizens common stock by (i) each person known by First Citizens to be the beneficial owner of more than 5% of the outstanding shares of First Citizens common stock, (ii) each director and nominee, (iii) each of our Named Executive Officers identified in the section below entitled Executive Compensation Summary Compensation Table and (iv) all directors and executive officers as a group. As of December 31, 2013, there were 3,607,754 shares of First Citizens common stock outstanding. First Citizens relied on information supplied by directors, executive officers and beneficial owners for purposes of this table.

<u>Name and Address of Beneficial Owner⁽¹⁾</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
First Citizens National Bank Employee Stock Ownership Plan and Trust	682,821	18.93%
Jeffrey D. Agee	11,731 (2)	*
Eddie E. Anderson	12,056	*
Sherrell Armstrong	1,312 (2)	*
J. Walter Bradshaw	34,603	*
Laura Beth Butler	600 (2)	*
James Daniel Carpenter	6,726	*
Richard W. Donner	19,973	*
Larry W. Gibson	10,200	*
Christian E. Heckler	1,300 (2)	*
Ralph E. Henson	13,000 (2)	*
Barry T. Ladd	24,593	*
John M. Lannom	26,840	*
Judy Long	5,304 (2)	*
Milton E. Magee	54,155	1.50%
Allen G. Searcy	20,031	*
G. W. Smithel	38,762	1.07%
Larry S. White	63,851	1.77%
Dwight Steven Williams	20,093	*
Katie S. Winchester	1,702 (2)	*
Joseph S. Yates	25,418	*
Directors and executive officers as a group (20 persons)	392,250 (2)	10.88%

* Less than one percent.

(1) The address for all listed beneficial owners is One First Citizens Place, Dyersburg, Tennessee 38024.

Excludes shares of First Citizens common stock held through the First Citizens National Bank Employee Stock Ownership Plan and

(2) Trust (the ESOP). As of December 31, 2013 (the most recent date available), the numbers of shares of First Citizens common stock held by directors and Named Executive Officers through the ESOP were as follows:

<u>Name</u>	<u>Number</u>
Jeffrey D. Agee	23,565
Sherrell Armstrong	5,428
Laura Beth Butler	1,809
Christian E. Heckler	2,367
Ralph E. Henson	31,191
Judy Long	19,207
Katie S. Winchester	31,695

Executive Compensation

Executive Officers

First Citizens board of directors has the authority to appoint officers of First Citizens. Each officer will hold office for such term as may be prescribed by the board of directors and until such person's successor is chosen and qualified or until such person's death, resignation or removal. Each of Mr. Agee and Ms. Long has entered into an employment agreement with First Citizens. Ms. Butler does not have an employment agreement. The biographies of Mr. Agee and Mss. Butler and Long are provided in the section above entitled Management of First Citizens.

Summary Compensation Table

The table below discloses compensation paid to each of the chief executive officer and the two other most highly compensated executive officers who were serving as executive officers at December 31, 2013 and whose total compensation for 2013 exceeded \$100,000 (the Named Executive Officers). This tabulation is for the years ended December 31, 2013 and 2012.

Name and Principal Position	Year	Salary	Bonus⁽¹⁾	Non-Equity Incentive Plan Compensation	All Other Compensation ⁽³⁾	Total
Jeffrey D. Agee	2013	\$375,000	\$37,500	\$131,250	\$36,021	\$579,771
	2012	300,120	-	150,060	34,529	484,709
<i>Chief Executive Officer and President</i>						
Judy Long	2013	200,000	20,000	70,000	34,331	324,331
	2012	187,200	-	93,610	33,907	314,717
<i>Executive Vice President and Chief Operating Officer</i>						
Laura Beth Butler	2013	165,000	16,500	57,750	30,559	269,809
	2012	154,500	-	77,265	28,064	259,829
<i>Executive Vice President, Chief Financial Officer and Secretary</i>						

- (1) Reflects a discretionary cash bonus awarded by the Compensation Committee.
 (2) Reflects cash bonus earned under non-equity incentive compensation plan.
 (3) Details of the amounts reported as All Other Compensation for 2013 are as follows:

Name	Taxable Automobile Fringe Benefit	Imputed Income for Life Insurance Benefit	Retirement Plan Contribution	Director Fees^(a)
Jeffrey D. Agee	\$1,145	\$ 826	\$17,850	\$16,200
Judy Long	2,137	1,144	17,850	13,200
Laura Beth Butler	-	111	17,848	12,600

- (a) Named Executive Officers who are also directors or attend board meetings as Corporate Secretary receive a retainer fee and fees for board meetings they attend but not for First Citizens National Bank board committee meetings. Compensation for service by Named Executive Officers on our board of directors and First Citizens National Bank board of directors during the year ended December 31, 2013 is reflected in the following table:

Name	Fees Earned or Paid in Cash	All Other Compensation*	Total
Jeffrey D. Agee	\$2,000	\$14,200	\$16,200
Judy Long	10,200	3,000	13,200
Laura Beth Butler	1,000	11,600	12,600

* All Other Compensation consists of director fees paid to charitable organizations.

Non-Equity Incentive Plan Compensation

Each of the Named Executive Officers is eligible for a cash incentive bonus under a plan that provides an incentive of 25% to 50% of base salary and is designed to ensure the compensation program was competitive, comprehensive and properly reflective of our strategic direction. Each incentive plan provides bonus cash compensation based on corporate, business unit and individual performance goals established each year by the Compensation Committee. Annual incentive compensation for each year is paid in January of the following year. The following bonuses were paid to the Named Executive Officers in 2014 based on achievement of corporate and individual performance goals for 2013:

Name	Percentage of Potential Bonus Received	Incentive Plan Compensation
Jeffrey D. Agee	70%	\$131,250
Judy Long	70%	70,000
Laura Beth Butler	70%	57,750

The incentive plans for our executives and other employees are designed to promote efficient and effective individual job performance, provide accountability for specific job responsibilities and are directly aligned with our strategic plan to promote achievement of specific strategic initiatives and objectives. Efficient and effective job performance and achievement of key objectives of our strategic plan is in the interest of shareholders and creates long-term shareholder value. The strategic plan is divided into four major areas – employees, shareholders, customers and risk management. The various components of each incentive plan relate to these areas and each plan has various components that balance risk and reward. Furthermore, executives and other employees are shareholders of First Citizens through ownership in individual shares and/or

ownership through participation in our ESOP. Ownership in First Citizens provides an incentive for executives and other employees to pursue actions that drive long-term shareholder value rather than just pursuing short-term goals that may expose us to material risk.

The 2013 performance metrics for the incentive plan of the Named Executive Officers are summarized below. Performance is measured using a balanced scorecard matrix, which is aligned with our strategic goals of creating long-term shareholder value and protecting the interests of First Citizens National Bank's depositors. The balanced scorecard matrix for 2013 included the following five, equally-weighted categories:

- Employees (comprised of employee turnover rate and results of corporate culture surveys);
- Customers (comprised of results from mystery shopper survey);
- Growth and Innovation (comprised of First Citizens National Bank's Tier 1 Capital, growth in total assets, growth in services per household, household retention and innovation);
- Shareholder Return (comprised of First Citizens return on equity, total shareholder return and dividend yield); and
- Regulatory Ratings.

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Based on a comparison of the 2013 performance to the target established by the Compensation Committee for each category, an overall rating of 1-5 (i.e., low to high) was assigned for each category. For 2013, the performance metrics, targets, actual performance and resultant ratings were as follows:

Performance Metric	Target	2013 Performance	Rating
Employee Turnover	<17%	8%	5 ⁽¹⁾
Corporate Culture Survey Results	90%	92.0%	
Customers ⁽²⁾	Qualitative ⁽²⁾	Achieved ⁽²⁾	4.65
Tier 1 Capital Leverage Ratio	>9.0%	9.25%	
Asset Growth	5.15% ⁽³⁾	10.1%	
Services per Household	1.9	2.36	4.80 ⁽⁵⁾
Household Retention	94%	94%	
Innovation ⁽⁴⁾	Qualitative ⁽⁴⁾	Achieved ⁽⁴⁾	
Return on Equity	7.1% ⁽⁶⁾	12.2%	
Total Shareholder Return (1 year)	50.04% ⁽⁶⁾	12.56%	
Total Shareholder Return (3 year)	19.40% ⁽⁶⁾	11.92%	3.40 ⁽⁷⁾
Total Shareholder Return (5 year)	7.27% ⁽⁶⁾	9.86%	
Dividend Yield	1.40% ⁽⁶⁾	3.33%	
Regulatory Ratings	(8)	(8)	(8)

(1) This overall rating reflects an average rating based on the achievement of both of the performance metrics related to the Employees category.

(2) This performance metric was qualitative and based on results of various customer surveys conducted throughout the year, including independent mystery shopping results.

(3) This target was based on the average asset growth for peer institutions (depository institutions with an asset size of \$1 billion to \$3 billion), as set forth in the Uniform Bank Performance Report, or the UBPR, as of September 30, 2013 (most recent available at the time performance was measured).

(4) This performance metric was qualitative and considered factors such as new strategic initiatives designed to improve efficiencies of work flow and various recognitions received by First Citizens. During 2013, we implemented strategies to, among other things, launch mobile banking, execute brand awareness campaign, construction of new branch in Jackson, Tennessee, design branch transformation strategy to be implemented in 2014 and provide instantly issued debit cards. We also received recognition as, among other things, one of the top community bank investments, top community bank performance measured by return on assets, best employers, and largest donors to certain charitable organizations within the communities it serves.

(5) This overall rating reflects an average rating based on a comparison of the 2013 performance compared to the targets for each of the performance metrics related to the Growth and Innovation category.

(6) This target was based on information set forth in the Southeast Public Bank Peer Report, or the Peer Report, produced by Mercer Capital with data provided by SNL Financial LC as of December 27, 2013.

(7) This overall rating reflects an average rating based on a comparison of the 2013 performance compared to the targets for each of the performance metrics related to the Shareholder Return category.

(8) First Citizens believes disclosure of this information would cause material competitive harm.

Based on the results of the balanced scorecard matrix for 2013, each of the Named Executive Officers received incentive pay totaling 35% of their respective base salaries. In addition, the Compensation Committee recommended and approved a discretionary cash bonus of 10% of base salary for each of the Named Executive Officers as a part of its corporate strategy to pay at or above peer levels to retain key executives.

The above-referenced categories and performance metrics are designed to incentivize the Named Executive Officers with measurable goals. It is possible, however, that certain of these metrics, taken alone, could encourage the executives to take certain risks that could have a material adverse effect on First Citizens. For example, with respect to the asset growth performance metric in the Growth and Innovation category, the executives could attempt to grow assets in a given year by increasing the loan portfolio without considering the ability of borrowers to repay such loans, which could increase the amount of non-performing loans in the future. The Compensation Committee believes, however, that the balanced scorecard approach mitigates such risks because risk-taking in one performance metric would likely negatively impact results for another performance metric. For example, if executives increased the loan portfolio without considering the ability of borrowers to repay in order to increase his or her Growth and Innovation category rating, then ratings for the Regulatory Ratings and Shareholder Return categories would likely decrease in subsequent years. Because each of the categories in the balanced scorecard matrix are weighted equally and address broad areas of overall performance, the Compensation Committee believes that the executives are not incentivized to take risks that might have a material adverse effect on First Citizens.

The Compensation Committee believes that the overall balanced mixture of performance metrics in the incentive plans for the Named Executive Officers are designed to reward long-term, rather than short-term, shareholder value. The Employee performance metric relates to maintaining strong employee retention rates and strong favorable corporate culture survey results. Low employee turnover rates and positive corporate culture help foster success with customers and shareholder return, both long-term and short-term. The Customers performance metric relates to strategic objectives to provide an exceptional level of customer service, as measured by customer retention and customer surveys. Incentivizing strong customer service levels helps create long-term shareholder value by establishing a strong base of profitable customers, which is measured by their satisfaction with our products and services. The Growth and Innovation performance metric measures growth in assets and market share. Strong performance in these areas helps create both short-term and long-term value for First Citizens and shareholders. The other three factors in the Growth and Innovation performance metric are designed to incent quality growth that is in the best interest of First Citizens and its shareholders. Growth without regard to quality is not fully rewarded, as it would likely result in lower ratings or the failure to achieve goals in the other performance metrics of the incentive plan. For example, if loan growth was pursued without regard to quality, then target Regulatory Ratings and Shareholder Return goals would likely not be met in the future. The Shareholder Return performance metric measures dividend yield, return on equity and total shareholder return against peer institutions. Dividend yield and return on equity are short-term measures, but if participants focus on these metrics without regard to the overall impact on our risk profile, then target Regulatory Ratings goals would likely not be met in the future. Total shareholder return is used to measure our performance over time and combines share price appreciation and dividends paid to provide total return to the shareholder. The Regulatory Ratings performance metric serves as an independent measure of the overall risk level and risk management practices of First Citizens. This is a key balancing factor in the incentive plan and is designed to promote strong risk management practices as well as the overall safety and soundness of First Citizens.

Employment Agreements

Employment agreements are currently in effect for each of Mr. Agee and Ms. Long. Agreements for Mr. Agee and Ms. Long include severance provisions in the event the executive voluntarily terminates his or her employment or the executive is terminated under certain circumstances, including without cause or in connection with a change in control, as specified below. Under the employment agreements for Mr. Agee and Ms. Long, cause generally means (i) the conviction of the executive or the rendering of a final non-appealable judgment for the willful and continued failure to substantially perform his or her duties under the agreement, our policies or federal or state law, which breach of duty materially adversely affected the safety and soundness of First Citizens or (ii) the non-appealable conviction of a felony. Further, change in control generally means (i) the acquisition by any person or group of persons of the shares of First Citizens or First Citizens National Bank which, when added to any other shares beneficially owned by such acquiror, results in ownership by any person(s) of 10% of such stock or which would require prior notification under federal or state banking laws or regulations, or (ii) the occurrence of any merger, consolidation or reorganization to which First Citizens or First Citizens National Bank is a party and to which First Citizens and First Citizens National Bank is not a surviving entity, or the sale of substantially all assets of First Citizens or First Citizens National Bank.

Under the employment agreements for Mr. Agee and Ms. Long, if termination by First Citizens for cause occurs before, coincident with or after a change in control or termination by the executive occurs prior to a change in control (including by reason of death, disability or retirement), the executive is entitled to receive (a) his or her base salary at the annual rate in effect through the last day of the month in which the termination occurs, (b) a pro-rata portion of any bonus earned prior to the date of termination to the extent not paid and (c) any amounts due under any other benefit plan in effect at the date of termination. If termination by First Citizens without cause occurs at least six months before a change in control, the executive is entitled to receive payments under the agreement through the end of the term of the agreement without further automatic extensions. Both of these employment agreements are renewable annually in April.

In the event that either Mr. Agee or Ms. Long is terminated without cause or terminates his or her employment coincident with or following a change of control (including by reason of death, disability or retirement), the employment agreements provide for compensation in addition to the amount specified above that the executive would receive upon termination for cause. In these circumstances, the executive would also receive a lump sum cash payment in an amount equal to two times compensation paid in the preceding calendar year, or scheduled to be paid to the executive during the year of the termination, whichever is greater, plus an additional amount sufficient to pay United States income tax on such lump sum amount; provided, however, that if the lump sum payment, together with other payments that the executive is entitled to receive from First Citizens, would constitute a parachute payment under Section 280G of the Internal Revenue Code, the payment will be reduced to the largest amount that would result in no portion of the lump sum payment being subject to the excise tax imposed by Section 4999 of the Internal Revenue Code. For purposes of this calculation, compensation is equal to the amount of total compensation reported or to be reported on the executive's Form W-2 for the applicable year.

Pursuant to these employment agreements as amended by the Amended and Restated Split Dollar Agreements (described above in the section entitled Compensation Discussion and Analysis Endorsement Split Dollar Life Insurance and Imputed Income Tax Reimbursement Agreements), we have purchased a life insurance policy for each of Mr. Agee and Ms. Long with a face amount of \$650,000. Upon the death of Mr. Agee prior to separation of service, we will pay an amount equal to \$650,000 from the proceeds of the policy to the person(s) he properly designated or the personal representative of his estate. Upon the death of Mr. Agee after separation of service, we will pay an amount equal to \$300,000 from the proceeds of the policy to the person(s) he properly designated or the personal representative of his estate. Upon the death of Ms. Long prior to or after separation of service, we will pay an amount equal to \$650,000 from the proceeds of the policy to the person(s) she properly designated or the personal representative of her estate. All proceeds received from the policies in excess of these amounts will be retained by First Citizens to offset the cost of providing these benefits.

Director Compensation

The following table provides information with respect to director compensation for directors who were not Named Executive Officers for the fiscal year ended December 31, 2013:

Name	Fees Earned or Paid in Cash	All Other Compensation	Total
Eddie E. Anderson	\$21,200	\$2,000	\$ 23,200
J. Walter Bradshaw	9,700	8,500	18,200
James Daniel Carpenter	10,200	8,000	18,200
Richard W. Donner	26,200	7,000	33,200

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Larry W. Gibson	21,200	2,000	23,200
Christian Heckler ⁽¹⁾	14,200	2,000	16,200
Ralph E. Henson	25,700	2,500	28,200
Barry T. Ladd	16,200	12,000	28,200
John M. Lannom	33,200		33,200
Milton E. Magee	35,200		35,200
Allen G. Searcy	33,200		33,200
G. W. Smitheal	21,200	2,000	23,200
David R. Taylor ⁽²⁾	20,200	15,000	35,200
Larry S. White	1,000	22,200	23,200
Dwight Steven Williams	14,200	9,000	23,200
Katie S. Winchester ⁽¹⁾	2,300	13,900	16,200
Joseph S. Yates	22,200	1,000	23,200

(1) In addition to the director fees listed above, Mr. Heckler and Ms. Winchester also receive additional compensation from First Citizens as they are employees of First Citizens National Bank.

(2) Mr. David Taylor retired from the board of directors as of December 31, 2013.

The board of directors establishes director fees on an annual basis. Directors who are executive officers of First Citizens National Bank or any of its subsidiaries receive fees for service on the board, but do not receive additional compensation for service on a First Citizens National Bank board committee. In 2013, directors were paid \$600 for each First Citizens National Bank board meeting attended as well as an annual retainer fee of \$6,000. In addition, annual fees were paid in the amount of \$3,000 to each of Ms. Winchester and Messrs. Heckler and Agee for service on our Southwest Region Advisory Board. This Advisory Board considers issues specific to customers in our southwest markets.

We pay additional amounts annually for service on various First Citizens National Bank board committees. In 2013, members of the Audit Committee (Messrs. Anderson, Gibson, Ladd, Lannom and Taylor) and Corporate Governance/Nominating/Compensation Committee (Messrs. Donner, Lannom, Magee, Searcy and Taylor) were each paid \$10,000 with an additional \$2,000 paid to each committee chairman. Outside directors serving on all other First Citizens National Bank board committees (Trust, CRA, Information Technology and Risk) were paid \$5,000, except Executive Committee members (Messrs. Anderson, Donner, Magee, Searcy and White) who received \$10,000.

All director fees are paid in cash. Directors may choose to have their fees donated to a charitable organization qualifying under Section 501(c)(3) of the Internal Revenue Code.

Certain Relationships and Related Person Transactions; Director Independence

First Citizens has had, and expects to have in the future, loans and other banking transactions in the ordinary course of business with directors (including our independent directors) and executive officers of First Citizens and its subsidiaries, including members of their families or corporations, partnerships or other organizations in which such officers or directors have a controlling interest. These loans are made on substantially the same terms (including interest rates and collateral) as those available at the time for comparable transactions with persons not related to First Citizens National Bank and did not involve more than the normal risk of collectability or present other unfavorable features.

In addition, First Citizens is subject to the provisions of Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. First Citizens is also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Certain Transactions with Management

Banking transactions with directors, officers, and employees may be performed in the ordinary course of business. Any extensions of credit to these individuals is made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and will not involve more than the normal risk of repayment. Outstanding loans to executive officers, directors, principal shareholders, and companies with whom they are associated as of June 30, 2014, were less than \$5.8 million.

The officers and directors are required to devote only so much of their time to the business of First Citizens and First Citizens National Bank as in their judgment is reasonably required. The officers and directors, and their affiliates, may engage, and are presently engaging, for their own accounts in other business ventures, including management and the formation of other corporations or ventures. Such activities may result in conflicts of interest.

INFORMATION ABOUT SHB**Business****General**

SHB is a bank holding company incorporated in Tennessee in 2004. Through its principal bank subsidiary, Southern Heritage Bank, SHB conducts commercial banking operations primarily in Bradley County in East Tennessee. At December 31, 2013, SHB and its subsidiaries had total assets of \$237.1 million and total deposits of \$205.3 million. SHB's principal executive offices are located at 3020 Keith Street, Cleveland, Tennessee 37312 and its telephone number is (423) 473-7980.

Southern Heritage Bank is a financial services institution that provides banking services to its customers. Southern Heritage Bank provides customary banking services, such as checking and savings accounts, fund transfers, various types of time deposits, safe deposit facilities, financing of commercial transactions and making and servicing both secured and unsecured loans to individuals, firms and corporations. Southern Heritage Bank's consumer lending department makes direct loans to individuals for personal, automobile, real estate, home improvement, business and collateral needs. Southern Heritage Bank typically sells long-term residential mortgages that it originates to the secondary market without retaining servicing rights. Southern Heritage Bank's commercial lending operations include various types of credit services for customers.

SHB also owns Southern Heritage Bancshares Statutory Trust I, which was formed in 2004 to raise \$5.0 million in regulatory capital for Southern Heritage Bank in the form of trust preferred securities.

The following table sets forth a comparative analysis of key balance sheet metrics of SHB as of December 31, for the years indicated (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total assets	\$237,078	\$242,822	\$223,849
Total deposits	205,345	208,486	192,689
Total net loans	134,067	147,016	137,672
Total equity capital	25,184	26,002	23,802

The table below provides a comparison of SHB's performance to industry standards based on information provided by the Federal Financial Institutions Examination Council. According to the Uniform Bank Performance Report (UBPR) as of December 31, 2013 (the most recent report available as of the date of this Proxy Statement/Prospectus), SHB's peer group consisted of 677 insured commercial banks with assets totaling \$100 million to \$300 million. The following table presents comparisons of SHB with its peers as indicated in UBPRs for the years ended December 31 for each of the years indicated⁽¹⁾:

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>SHB</u>	<u>Peer(1)</u>	<u>SHB</u>	<u>Peer(2)</u>	<u>SHB</u>	<u>Peer(2)</u>
Net interest income to average earning assets	4.07%	3.81%	4.17%	3.92%	4.16%	4.00%
Net operating income to average assets	1.18	0.72	1.21	0.65	1.07	0.37
Net loan losses to average total loans	0.30	0.33	0.90	0.52	1.00	0.83
Tier 1 capital to average assets ⁽³⁾	13.59	10.05	12.74	9.80	12.24	9.57
Cash dividends to net income	23.90	25.90	5.44	25.52	0.00	20.86

(1) UBPR information, as presented in the table above, is prepared on a bank-only basis. This information may differ from other information presented in the Information About SHB which is presented on a consolidated basis.

(2) Peer information is provided for December 31, 2013, which is the most recent information available.

(3)

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For the years ended December 31, 2012 and 2011, SHB's peer group consisted of approximately 719 and 736 insured commercial banks with total asset size of \$100 million to \$300 million.

(4) Tier 1 capital to average assets is the ratio of core equity capital components to average total assets.

SHB and Southern Heritage Bank employed a total of 64 full-time equivalent employees as of December 31, 2013. SHB and Southern Heritage Bank are committed to hiring and retaining high quality employees to execute SHB's strategic plan.

SHB's website address is www.southernheritagebank.com. Shareholders may request a copy of the annual report without charge by contacting Virginia Kibble, Southern Heritage Bancshares, Inc., P. O. Box 4730, Cleveland, Tennessee 37320-4730.

Recapitalization

During the annual meeting on March 6, 2008, SHB's shareholders voted on and approved a charter amendment authorizing a reclassification of the outstanding shares of SHB's common stock into four separate and distinct classes (common stock, Class A common stock, Class B common stock and SHB Series A preferred stock). Upon the filing of the charter amendment, shares of SHB common stock outstanding immediately prior to such filing either remained as common stock or were converted to Class A common stock, Class B common stock or SHB Series A preferred stock. The SHB common stock continues to have unlimited voting rights. Class A common stock has limited voting rights and is entitled only to vote on transactions involving a merger, share exchange, sale of substantially all of the assets, voluntary dissolution, or as required by law. Class B common stock has limited voting rights and is entitled to vote only as required by law. SHB Series A preferred stock has limited voting rights and is entitled only to vote as may be required by law or in connection with the issuance of any stock having rights superior to the SHB Series A Preferred Stock.

Competition

The business of providing financial services is highly competitive. In addition to competing with other commercial banks in its service area, Southern Heritage Bank competes with savings and loan associations, insurance companies, savings banks, small loan companies, finance companies, mortgage companies, real estate investment trusts, certain governmental agencies, credit card organizations, credit unions and other enterprises. In 1998, federal legislation allowed credit unions to expand their membership criteria. Expanded membership criteria coupled with existing tax-exempt status give credit unions a competitive advantage compared to banks.

Southern Heritage Bank builds and implements strategic plans and commitments to address competitive factors in the various markets it serves. Southern Heritage Bank's primary strategic focus is on obtaining and maintaining profitable customer relationships in all markets it serves. The markets demand competitive pricing, but Southern Heritage Bank competes on high quality customer service that will attract and enhance loyal, profitable customers to Southern Heritage Bank. Industry surveys have consistently revealed that 65 to 70% of customers leave banks because of customer service issues. Accordingly, Southern Heritage Bank is committed to providing excellent customer service in all markets that it serves as a means of branding and distinguishing itself from other financial institutions. Southern Heritage Bank utilizes advertising, including both newspaper and radio, and promotional activities to support its strategic plans.

Southern Heritage Bank offers a typical mix of interest-bearing transaction, savings and time deposit products, as well as traditional non-interest bearing deposit accounts. Southern Heritage Bank maintains branch offices in Bradley County in Tennessee and a stand alone ATM facility in Polk County in Tennessee. Southern Heritage Bank's market share has been in excess of 13% in Bradley County for the last three years. The following market share information for Bradley County (banks only, deposits inside of market) is from the Deposit Market Share Report, as of June 30, 2013, prepared annually by the FDIC (dollars in thousands):

<u>Bank Name</u>	<u># of Offices</u>	<u>Total Deposits</u>	<u>Market Share %</u>
First Tennessee Bank, N.A.	4	275,508	19.34%
Branch Banking and Trust Company	3	216,663	15.21%
Southern Heritage Bank	3	207,999	14.60%
Regions Bank	4	201,365	14.13%
Bank of Cleveland	5	173,765	12.20%
SunTrust Bank	3	98,157	6.89%
United Community Bank	2	74,410	5.22%
CapitalMark Bank & Trust	1	61,308	4.30%
All others	7	115,481	8.10%
Total	32	1,424,656	100.00%

Regulation and Supervision

This section provides a brief summary of the regulatory environment in which SHB and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations, including those statutes specifically mentioned herein. Changes in applicable laws, and their application by regulatory and law enforcement agencies, cannot necessarily be predicted, but could have a material effect on the business and results of SHB and its subsidiaries.

SHB is a bank holding company under the Bank Holding Company Act and is subject to supervision and examination by the Federal Reserve. As a bank holding company, SHB is required to file annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve also conducts examinations of SHB. Federal Reserve approval must be obtained before SHB may:

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- Acquire ownership or control of any voting securities of a bank or bank holding company where the acquisition results in SHB owning or controlling more than 5% of a class of voting securities of that bank or bank holding company; or
- Acquire substantially all of the assets of a bank or bank holding company or merge with another bank holding company.

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

Southern Heritage Bank is a Tennessee banking corporation. Southern Heritage Bank's operations are subject to the regulations of the TDFI and the FDIC. Both the TDFI and FDIC regulate and examine Southern Heritage Bank, and both have the authority under respective federal and state laws to prevent Southern Heritage Bank from engaging in unsafe or unsound practices in conducting its business. Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

SHB and Southern Heritage Bank are subject to certain provisions of FDICIA, which are described in INFORMATION ABOUT FIRST CITIZENS--Regulation and Supervision. Southern Heritage Bank exceeded the criteria for the well capitalized category at December 31, 2013. SHB is required to comply with the risk-based capital guidelines established by the Federal Reserve and with other tests relating to capital adequacy that the Federal Reserve adopts from time to time. Other current and proposed federal statutes, regulations and policies referenced above under INFORMATION ABOUT FIRST CITIZENS--Regulation and Supervision also apply to SHB and Southern Heritage Bank.

Limitations on the Payment of Dividends

SHB is a legal entity that is separate and distinct from its subsidiaries. The primary source of funds for dividends paid to SHB's shareholders has been dividends paid to SHB by Southern Heritage Bank. Various federal and state laws limit the amount of dividends that Southern Heritage Bank may pay to SHB without regulatory approval. Payments of dividends to SHB by Southern Heritage Bank are subject to the restrictions set forth in the Tennessee Banking Act which requires the approval of the TDFI if the total of all dividends declared by a Tennessee state bank in any calendar year exceeds the net income of that bank for that year combined with the bank's retained net income for the preceding two calendar years. Under FDICIA, Southern Heritage Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit Southern Heritage Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of Southern Heritage Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4 (SR 09-4), on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve's view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends. Further, in the current financial and economic environment, the Federal Reserve has indicated that bank and financial holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Usury Laws

Tennessee usury laws limit the rate of interest that may be charged by banks operating in Tennessee. Certain federal laws provide for preemption of state usury laws. See INFORMATION ABOUT FIRST CITIZENS- Regulation and Supervision.

Properties

Southern Heritage Bank has three full-service bank financial centers and ATMs spread over two Tennessee counties. A list of available banking locations and hours is maintained on Southern Heritage Bank's website (www.southernheritagebank.com) under the Locations & Hours section.

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Southern Heritage Bank owns and occupies the following properties:

- Southern Heritage Bank's main branch and executive offices are located in a two-story building at 3020 Keith Street, Cleveland, Bradley County, Tennessee 37312. This property also houses Southern Heritage Bank's operations, information technology, call center, bank security and mail departments;
- Southern Heritage Bank's Waterville Springs office is located at 2530 Dalton Pike, Cleveland, Bradley County, Tennessee 37323, and is a full-service banking facility with 3 drive-through lanes and a drive-up ATM lane;
- The Georgetown Road office is located at 3795 Georgetown Road, Cleveland, Bradley County, Tennessee 37312, and is a full-service banking facility with 3 drive-through lanes and a drive-up ATM lane;
- Southern Heritage Bank's stand alone ATM location is located at the corner of Hwy 64 and 411, 116 White Water Drive, Ocoee, Polk County, Tennessee 37361.

Southern Heritage Bank owns all branch properties and there are no liens or encumbrances against any properties owned by Southern Heritage Bank; the ATM location in Polk County is leased. All facilities described above are adequate and appropriate to provide banking services as noted and are adequate to handle growth expected in the foreseeable future. As growth continues or needs change, individual property enhancements or additional properties will be evaluated as necessary.

Legal Proceedings

SHB and its subsidiaries are defendants in various lawsuits arising out of the normal course of business. In the opinion of management, the ultimate resolution of such matters should not have a material adverse effect on SHB's consolidated financial condition or results of operations. Litigation is, however, inherently uncertain, and SHB cannot make assurances that it will prevail in any of these actions, nor can it estimate with reasonable certainty the amount of damages that it might incur.

Market for SHB's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Holdings and Market Information

As of June 30, 2014, there were 847 shareholders of record of SHB stock. SHB stock is not listed or traded on any established public trading market. The only sales of any shares known to SHB in 2013 or 2014 were as follows: During the second quarter of 2014, 100 shares of stock sold at an average price of \$24.50 per share. During 2013, 10,346 shares of stock sold at an average price of \$20.25 per share. These sale prices represent known transactions reported to SHB and do not necessarily represent all trading transactions for the periods.

Dividends

SHB paid aggregate dividends per share of SHB common stock of \$0.40 in 2013 and \$0.30 in 2012. No dividends were paid in the first two quarters of 2014. SHB pays dividends one time per year. The following annual dividends per share of common stock by class were paid for 2013 and 2012:

<u>Annual dividends</u>	<u>2013</u>	<u>2012</u>
Common stock	\$ 0.40	\$ 0.30
Class A common stock	0.41	0.31
Class B common stock	0.42	0.32

Future dividends will depend on SHB's earnings, financial condition, regulatory capital levels and other factors, which SHB's board of directors considers relevant. See the section above entitled "Business Regulation and Supervision" and Note 8 to SHB's Consolidated Financial Statements included elsewhere in this Proxy Statement/Prospectus for more information on restrictions and limitations on SHB's ability to pay dividends.

Issuer Purchases of Equity Securities

SHB had no publicly announced plans or programs for purchase of stock during 2013. There were no shares of SHB common stock repurchased during the year ended December 31, 2013, nor during the six months ended June 30, 2014.

Unregistered Sales of Securities

There were no unregistered sales of SHB's common stock in 2013, 2012 or the six months ended June 30, 2014.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Years Ended December 31, 2013 and 2012

Executive Overview

For the year ended December 31, 2013, SHB produced stable net income that resulted in a return on average equity of 10.65% compared to 10.68% for 2012. Net income for 2013 totaled \$2.7 million compared to \$2.7 million in 2012. Earnings per share were \$2.10 for the year ended December 31, 2013 compared to \$2.00 for the year ended December 31, 2012.

Net interest income totaled \$8.1 million in 2013 compared to \$8.0 million in 2012. Provision for loan losses totaled approximately \$124,000 in 2013 compared to approximately \$980,000 in 2012. Gain on sale of available-for-sale securities totaled \$164,000 in 2013 compared to approximately \$1.0 million in 2012. Losses on the sale or write-down of other real estate owned totaled approximately \$192,000 in 2013 compared to \$549,000 in 2012.

Total equity decreased from \$26.0 million as of December 31, 2012 to \$25.2 million as of December 31, 2013. The decrease in total equity is due to a decrease in the fair value of the security portfolio, which decreased accumulated other comprehensive income by \$3.3 million, which was partially offset by a \$2.1 million increase in retained earnings and a \$300,000 increase in additional paid in capital due primarily to the exercise of stock options. Return on average equity was 10.65% in 2013 compared to 10.68% for 2012. Return on average assets (ROAA) was 1.14% and 1.16% for 2013 and 2012, respectively.

In 2013, SHB's common stock dividend payout ratio was 19.23% compared to 14.82% in 2012. The dividend payout ratio has trended in the range of 0.00% to 19.23% over the past five years as part of SHB's strategic effort to balance growth and preservation of capital with providing a competitive dividend yield.

Maintaining a stable net interest margin and manageable interest rate risk profile is perpetual strategic priority for many financial institutions, including Southern Heritage Bank. SHB's net interest margin has been in the range of 3.28% to 4.17% over the past five years and was 4.07% in 2013 and 4.17% in 2012. As of December 31, 2013, SHB's interest rate risk position was asset sensitive. See Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Risk.

The efficiency ratio is a measure of non-interest expense as a percentage of total revenue. SHB computes the efficiency ratio by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income. This is a non-GAAP financial measure, which management believes provides investors with important information regarding SHB's operational efficiency. Comparison of SHB's efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently. SHB's efficiency ratios for the years ended December 31, 2013, and 2012 were 62.15% and 58.10%, respectively.

The tangible common equity ratio is a non-GAAP measure used by management to evaluate capital adequacy. Tangible common equity is total equity less net accumulated other comprehensive income, goodwill and deposit-based intangibles. Tangible assets are total assets less goodwill and deposit-based intangibles. The tangible common equity ratio was 11.59% as of December 31, 2013 compared to 10.30% as of December 31, 2012.

A reconciliation of the non-GAAP measures of efficiency ratio and tangible common equity ratio is provided as follows (dollars in thousands):

	<u>2013</u>	<u>2012</u>
Efficiency ratio:		
Net interest income ⁽¹⁾	\$ 8,754	\$ 8,600
Non-interest income ⁽²⁾	2,776	3,993
Total revenue	11,530	12,593
Non-interest expense	7,166	7,317
Efficiency ratio	62.15%	58.10%
Tangible common equity ratio:		
Total equity capital	\$ 25,184	\$ 26,002
Less:		
Accumulated other comprehensive income	(2,283)	987
Goodwill	-	-
Other intangible assets	-	-

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Tangible common equity	\$ 27,467	\$ 25,015
Total assets	237,078	242,822
Less:	-	-
Goodwill	-	-
Other intangible assets	-	-
Tangible assets	\$ 237,078	\$ 242,822
Tangible common equity ratio	11.59%	10.30%

(1) Net interest income includes interest and rates on securities that are non-taxable for federal income tax purposes that are presented on a taxable equivalent basis based on a federal statutory rate of 34%.

(2) Non-interest income is presented net of any credit losses from other-than-temporary impairment losses on available-for-sale securities recognized against earnings for the years presented.

Critical Accounting Policies

The accounting and reporting of SHB and its subsidiaries conform to GAAP and follow general practices within the industry. Preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Management believes that SHB's estimates are reasonable under the facts and circumstances based on past experience and information supplied from professionals, regulators and others. Accounting estimates are considered critical if (i) management is required to make assumptions or judgments about items that are highly uncertain at the time estimates are made and (ii) different estimates reasonably could have been used during the current period, or changes in such estimates are reasonably likely to occur from period to period, that could have a material impact on presentation of SHB's Consolidated Financial Statements.

The development, selection and disclosure of critical accounting policies are discussed and approved by the Audit Committee of Southern Heritage Bank's board of directors. Because of the potential impact on the financial condition or results of operations and the required subjective or complex judgments involved, management believes its critical accounting policies consist of the allowance for loan losses and fair value of financial instruments.

- Allowance For Loan Losses

The allowance for loan losses represents management's best estimate of inherent losses in the existing loan portfolio. Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb reasonably estimated and probable losses within the portfolio. Management believes the allowance for loan losses estimate is a critical accounting estimate because: (i) changes can materially affect provision for loan loss expense on the income statement; (ii) changes in the borrower's cash flows can impact the reserve; and (iii) management makes estimates at the balance sheet date and also into the future in reference to the reserve. While management uses the best information available to establish the allowance for loan losses, future adjustments may be necessary if economic or other conditions change materially. In addition, as a part of their examination process, regulatory agencies periodically review Southern Heritage Bank's loans and allowances for loan losses and may require Southern Heritage Bank to recognize adjustments based on their judgment about information available to them at the time of their examination.

- Fair Value of Financial Instruments

Certain assets and liabilities are required to be carried on the balance sheet at fair value. Further, the fair value of financial instruments must be disclosed as a part of the notes to the consolidated financial statements for other assets and liabilities. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, the shape of yield curves and the credit worthiness of counterparties.

Fair values for all of Southern Heritage Bank's available-for-sale investment securities are based on observable market prices obtained from independent asset pricing services that are based on observable transactions but not quoted market prices.

Financial Condition

Total assets decreased 2.35% to \$237.1 million as of December 31, 2013 compared to \$242.8 million as of December 31, 2012. Loans decreased 8.88% or \$13.3 million as competition for quality loans been significant in SHB's market.

Deposits totaled \$205.3 million as December 31, 2013 compared to \$208.5 million as of December 31, 2012 and accounted for more than 97.55% of total funding for SHB for 2013. Capital decreased approximately 3.14% when comparing December 2013 to December 2012 as a result of increases in undistributed net income of \$2.1 million and additional paid in capital of \$300,000 being more than offset by a decrease of \$3.3 million in accumulated other comprehensive income. The decrease in accumulated other comprehensive income is due to the unrealized gain position on the available for sale securities portfolio changing to an unrealized loss during 2013 as a result of the mid-year spike in long term interest rates. Unrealized gains on investments retreated significantly in 2013 relative to the rise in 10-year Treasury yields, which were 3.04% and 1.78% as of December 31, 2013 and 2012, respectively.

● Investment Securities Analysis

The following table presents the composition of total investment securities as of December 31 for the last five years (in thousands):

	2013	2012	2011	2010	2009
U.S. Treasury and government agencies	\$1,718	\$1,039	\$2,025	\$4,938	\$14,648
State and political subdivisions	46,495	39,761	34,082	12,888	17,421
Mortgage-backed, residential (GSEs)	20,753	16,540	19,786	23,942	14,255
Total investment securities	\$68,966	\$57,340	\$55,893	\$41,768	\$46,324

In 2013, investment securities increased \$11.6 million due to a \$4.2 million increase in agency MBS and a \$6.7 million increase in municipal securities. Changes in the portfolio were primarily driven by incremental purchases of new MBS and municipal debt securities which were offset by an overall decrease of \$5.0 million in net unrealized appreciation (pre-tax) on the portfolio.

The allocation to tax-exempt municipal securities as a percent of the total portfolio was 67.42% as of December 31, 2013 compared to 69.34% and 60.98% as of December 31, 2012 and 2011, respectively. This range of ratios is consistent with recent allocations, as SHB has strategically maintained approximately two-thirds of its portfolio in the tax-exempt municipal sector for many years.

● Maturity and Yield on Securities

Contractual maturities on investment securities generally vary from one to 15 years. However, the expected remaining lives of investment securities are expected to be much shorter due to anticipated payments from mortgage-backed securities. These securities comprised 30.09% of the investment security portfolio at December 31, 2013 and are primarily amortizing payments that provide stable monthly cash inflows of principal and interest payments. The following table presents carrying amount, contractual maturities and yields by category for debt securities as of December 31, 2013 (dollars in thousands):

	Maturing Within One Year		Maturing After One Year Within Five Years		Maturing After Five Years Within Ten Years		Maturing After Ten Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
U. S. Treasury and government agencies	\$-	-	\$-	-	\$1,718	2.26%	\$-	-	\$1,718
State and political subdivisions ⁽²⁾	-	-	-	-	6,464	4.30%	40,031	4.28%	46,495
Mortgage-backed, residential (GSEs) ⁽¹⁾	275	3.34%	15,755	2.60%	3,710	2.36%	1,013	2.99%	20,753
Total	\$275	3.34%	\$15,755	2.60%	\$11,892	3.33%	\$41,044	4.25%	\$68,966

(1) This category consists entirely of residential MBS and CMOs issued by government sponsored entities, which are presented based on contractual maturities (with 59.51% of the total for this category in the Maturing After Ten Years category). However, the remaining lives of such securities are expected to be much shorter due to anticipated payments.

(2) Yields are presented on a tax-equivalent basis using a federal statutory rate of 34%.

● Available-For-Sale Securities

SHB held no securities in the held-to-maturity or trading categories as of December 31, 2013 or 2012. The following table presents amortized cost and fair value of available-for-sale securities as of December 31, 2013 (in thousands):

Amortized Cost	Fair Value
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U.S. Treasury and government agencies	\$1,759	\$1,718
States and political subdivisions	49,810	46,495
Mortgage-backed, residential (GSEs)	20,856	20,753
Total	\$72,425	\$68,966

In addition to the amounts presented above, Southern Heritage Bank held \$450,000 in FHLB stock at both December 31, 2013 and 2012, recorded at cost.

Objectives of Southern Heritage Bank's investment portfolio management are to provide safety of principal, provide adequate liquidity, insulate GAAP capital against excessive changes in market value and optimize investment performance. Investments also serve as collateral for government, public funds and large deposit accounts that exceed FDIC-insured limits. Pledged investments at December 31, 2013 and 2012 had a fair market value of \$2.2 million and \$4.3 million, respectively. The average expected life of the investment securities portfolio was 10.44 years and 10.12 years as of December 31, 2013, and 2012, respectively. Portfolio yields (on a tax equivalent basis) were 3.74 % as of December 31, 2013 compared to 3.94% as of December 31, 2012.

SHB classifies investments, based on intent, into trading, available-for-sale and held-to-maturity categories in accordance with GAAP. SHB held no securities in the trading or held-to-maturity categories for any of the last five years and does not expect to hold any such securities in 2014. SHB's investment strategy is to classify the securities portfolio as available-for-sale, which are carried on the balance sheet at fair market value. Classification of available-for-sale investments allows flexibility to actively manage the portfolio under various market conditions.

Mortgage-backed, residential securities consisted of MBS and CMOs issued by government sponsored entities and accounted for 30.09% and 28.84% of the investment portfolio for years ended December 31, 2013 and 2012, respectively. The Credit quality of SHB's MBS and CMO portfolio was considered strong and reflected a net unrealized loss (pre-tax) of \$103,000 as of December 31, 2013. The unrealized loss position is attributable to market factors as values are heavily influenced by market rates and yield curve, including but not limited to the 10-year Treasury rates, which increased approximately 126 basis points from December 31, 2012 to December 31, 2013. Management believes that this level of amortizing securities provides steady cash flows. Principal cash flows for 2014 are projected to be \$2.8 million.

As of December 31, 2013 and 2012, approximately two-thirds of the investment portfolio was invested in municipal securities, which were geographically diversified. The fair value of municipal securities at December 31, 2013 totaled \$46.5 million all of which were tax exempt. Approximately 78.46% of municipal securities were general obligation municipal bonds and the remaining 21.54% were revenue bonds at December 31, 2013. The revenue bonds are primarily essential services bonds such as for water and sewer, school systems and other public improvement projects. Overall credit quality of the municipal portfolio was considered satisfactory and reflected a net unrealized loss of \$3.3 million as of year-end 2013, which is attributable to change in interest rate and liquidity as none of these rated bonds were below investment grade.

The following table indicates by category gross unrealized gains and losses within the available-for-sale portfolio as of December 31, 2013 (in thousands):

	Unrealized Gains	Unrealized Losses	Net
U.S. Treasury and government agencies	\$-	\$(41)	\$(41)
States and political subdivisions	104	(3,419)	(3,315)
Mortgage-backed, residential (GSEs)	234	(337)	(103)
Total	338	(3,797)	(3,459)

Unrealized gains and losses noted above were included in Accumulated Other Comprehensive Income, net of tax.

● Loan Portfolio Analysis

The following table compares the portfolio mix of loans held for investment as of December 31 for each of the last five years (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Commercial and industrial	\$22,374	\$25,557	\$23,788	\$24,809	\$27,655
Construction and development	17,348	17,233	14,482	15,140	21,174
Real estate-mortgage ⁽¹⁾	84,852	91,864	91,522	87,972	86,083
Installment loans to individuals	2,027	2,208	2,018	2,589	3,673
Other loans	9,433	12,426	8,456	11,555	11,751
Total loans	\$136,034	\$149,288	\$140,266	\$142,065	\$150,336

(1) Includes commercial real estate, multi-family, first lien residential and home equity products

For purposes of the table above, loans do not include loans that are sold in the secondary mortgage market. SHB classifies loans to be sold in the secondary mortgage market separately in its consolidated financial statements. Secondary market mortgages totaled \$3.2 million, \$3.8 million and \$2.5 million as of December 31, 2013, 2012 and 2011, respectively. Interest and fees earned on secondary mortgage loans were included in loan interest income and gain on sale of mortgage loans, respectively, in SHB's Consolidated Financial Statements.

• Changes In Loan Categories

Total loans at December 31, 2013 were \$136.0 million compared to \$149.3 million at December 31, 2012 and \$140.3 million at December 31, 2011. Loans decreased 8.88% in 2013 and increased 6.43% in 2012. The following table details the breakdown of changes by category for the year ended December 31, 2013 (dollars in thousands):

	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Commercial and industrial	\$(3,183)	(12.45%)
Construction and development	115	0.67%
Real estate-mortgage	(7,012)	(7.63%)
Installment loans to individuals	(181)	(8.20%)
Other loans	(2,993)	(24.09%)
Net change in loans	\$(13,254)	(8.88%)

The loan portfolio remains heavily weighted in real estate loans, which accounted for \$102.2 million or 75.13% of total loans as of December 31, 2013 compared to \$109.1 million or 73.08% of total loans as of December 31, 2012. Commercial and residential construction loans accounted for \$17.3 million of the \$102.2 million invested in real estate loans. Although the portfolio was heavily weighted in real estate, Southern Heritage Bank does not invest in sub-prime or non-traditional mortgages. Within real estate loans, commercial real estate loans was the largest category, comprising 38.36% of total loans as of December 31, 2013 compared to 37.48% as of December 31, 2012. Diversification of the real estate portfolio is a necessary and desirable goal of SHB's real estate loan policy. In order to achieve and maintain a prudent degree of diversity, given the composition of the market area and the general economic state of the market area, SHB will strive to maintain real estate loan portfolio diversification. Risk monitoring of commercial real estate concentrations is performed in accordance with regulatory guidelines and includes assessment of risk levels of various types of commercial real estate and review of ratios of various concentrations of commercial real estate as a percentage of capital. During 2013, loans decreased 8.88% and capital decreased 3.14%. Therefore, real estate loans as a percent of capital increased. The following table presents real estate loans as a percent of total risk based capital as of December 31 for each of the last five years:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>As a percent of total risk based capital*:</u>					
Construction and development	50.87%	53.58%	49.14%	56.12%	89.94%
Residential (one-to-four family)	84.19	96.66	105.72	127.78	156.51
Other real estate loans	164.63	188.94	204.86	198.34	209.14
Total real estate loans	299.69%	339.18%	359.73%	382.24%	455.58%

* Total risk-based capital is a non-GAAP measure used by regulatory authorities and reported on quarterly regulatory filings. Total risk-based capital for Southern Heritage Bank was \$34.1 million, \$32.2 million, \$29.5 million, \$27.0 million and \$23.5 million as of December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

• Average Loan Yields

The average yield on loans of Southern Heritage Bank has trended downward over the past four years, as loans have repriced during the historically low interest rate environment. Average yield on loans for the years indicated were as follows:

2013 - 5.24%
2012 - 5.58%
2011 - 5.70%
2010 - 5.73%
2009 - 5.63%

The aggregate amount of unused guarantees, commitments to extend credit and standby letters of credit was \$25.6 million at year-end 2013. For more information regarding commitments and standby letters of credit, see Note 10 in SHB Consolidated Financial Statements.

Loan Policy Guidelines

Management has established policies approved by SHB's board of directors regarding portfolio diversification and underwriting standards. Loan policy also includes Board-approved guidelines for collateralization, loans in excess of loan to value (LTV) limits, maximum loan amount and maximum maturity and amortization period for each loan type. Policy guidelines for LTV ratios and maturities related to various types of collateral at December 31, 2013, were as follows:

Collateral	Maximum Amortization	Maximum LTV
Real estate	Various (see discussion below)	Various (see discussion below)
Equipment	7 Years	70%
Inventory	5 Years	50%
Accounts receivable	5 Years	75%

SHB manages risk in the real estate portfolio by adherence to regulatory limits in regards to LTV percentages, as designated by the following categories:

<u>Loan Category</u>	<u>Maximum LTV</u>
Raw land	65%
Farmland	80%
Real estate-construction:	
Commercial acquisition and development	75%
Commercial, multi-family* and other non-residential	80%
One-to-four family residential owner occupied	80%
One-to-four family residential non-owner occupied	80%
Commercial (existing property):	
Owner occupied improved property	80%
Non-owner occupied improved property	80%
Residential (existing property):	
Home equity lines	80%
Owner occupied one-to-four family residential	80%
Non-owner occupied one-to-four family residential	80%

* Multi-family construction loans include loans secured by cooperatives and condominiums.

Loans may be approved in excess of the LTV limits, provided that they are approved on a case-by-case basis pursuant to Southern Heritage Bank's loan policy as follows:

- ◆ The request is fully documented to support the fact that other credit factors justify the approval of that particular loan as an exception to the LTV limit;
- ◆ The loan, if approved, is designated in Southern Heritage Bank's records and reported as an aggregate number with all other such loans approved by the full board of directors on at least a quarterly basis;
- ◆ The aggregate total of all loans so approved, including the extension of credit then under consideration, shall not exceed 100% of Southern Heritage Bank's total capital; and
- ◆ The aggregate portion of these loans in excess of the LTV limits that are classified as commercial, agricultural, multi-family or non-one-to-four family residential property shall not exceed 30% of Southern Heritage Bank's total capital.

Southern Heritage Bank's loan policy additionally requires every loan to have a documented repayment arrangement. While reasonable flexibility is necessary to meet credit needs of customers, in general real estate loans are to be repaid within the following time frames:

<u>Loan Category</u>	<u>Maximum Amortization Period</u>
Raw land	10 years
Real estate- construction	1.5 years
Real estate-commercial, multi-family, and other non-residential	20 years
Real estate-one-to-four family residential	20 years

Home equity
Farmland

10 years
20 years

◆ Credit Risk Management and Allowance for Loan Losses

Loan portfolio quality improved in 2013 compared to 2012 and 2011 and remains manageable relative to prevailing market conditions, as is evidenced through improving trends in impaired loans and changes to the allowance for loan losses. The ratio of net charge-offs to average net loans outstanding was 0.30%, 0.90% and 1.00% for the years ended December 31, 2013, 2012 and 2011, respectively. The aggregate of non-performing loans and OREO as a percent of total loans plus OREO at December 31, 2013 totaled 1.58% compared to 1.62% at December 31, 2012 and 2.96% at December 31, 2011. The volume of OREO increased \$222,000 and loans charged off decreased \$813,000 in 2013 compared to 2012 while total non-performing loans decreased \$501,000 from 2012 to 2013. Management believes that Southern Heritage Bank's strong credit risk management practices continue to provide a means for timely identification and assessment of problem credits in order to minimize losses. For additional information regarding SHB's credit risk management procedures and practices and allowance for loan losses, refer to Notes 1 and 3 in SHB Consolidated Financial Statements.

◆ Non-Performing Assets

Non-performing assets consist of non-performing loans and OREO. Non-performing loans consist of non-accrual loans and loans 90 days or more past due and still accruing interest. Interest income on loans is recorded on an accrual basis. The accrual of interest is discontinued on all loans, which become 90 days past due, unless the loan is well secured and in the process of collection. The gross interest income that would have been recorded for the 12 months ended December 31, 2012 if all loans reported as non-accrual had been current in accordance with their original terms and had been outstanding throughout the period was approximately \$48,000 for 2013 compared to approximately \$3,000, \$97,000, \$155,000 and \$119,000 for the 12 months ended December 31, 2012, 2011, 2010 and 2009, respectively. Loans on which terms have been modified in a concessionary manner as a result of deterioration in the financial position of the borrower are considered to be troubled-debt restructures (TDRs). SHB had TDRs totaling \$359,000 of December 31, 2013, compared to \$371,000 as of December 31, 2012. For additional discussion regarding non-performing assets, see Note 3 in SHB Consolidated Financial Statements.

◆ Other Real Estate Owned

The book value of OREO was \$1.2 million as of December 31, 2013, compared to \$1.0 million and \$2.0 million as of December 31, 2012 and 2011, respectively. As of December 31, 2013, there were approximately seven properties accounted for as OREO consisting of vacant land, residential lots and other residential and commercial properties. Approximately 93% of the \$1.2 million accounted for as OREO as of December 31, 2013, was located in Bradley County, Tennessee and surrounding counties. Management continues efforts to market and liquidate OREO.

Activity in OREO for the years ended December 31, 2013, 2012, and 2011 was as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 1,009	\$ 1,959	\$ 3,912
Acquisitions	1,364	990	990
Dispositions	(950)	(1,391)	(2,721)
(Loss) Gain on sale and writedowns	(192)	(549)	(222)
Ending balance	\$ 1,231	\$ 1,009	\$ 1,959

OREO is recorded at the time of foreclosure at fair value, less estimated costs to sell, establishing a new cost basis. Subsequently, it is carried at the lower of cost or market. Any reduction in value at the time of foreclosure is charged to the allowance for loan losses. All other real estate parcels are appraised at least annually and carrying values adjusted to reflect the decline, if any, in their realizable value. Such adjustments made subsequent to foreclosure are charged against earnings.

Other non-interest expenses for property taxes, maintenance and other costs related to acquisition or maintenance of OREO totaled approximately \$143,000, \$111,000 and \$114,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

● Composition of Deposits

The average balance of deposits and average interest rates paid on such deposits are summarized in the following table for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

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	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
Non-interest bearing demand deposits	\$ 31,962	N/A	\$ 32,795	N/A	\$ 28,982	N/A
Interest bearing demand deposits	84,591	0.32%	68,433	0.48%	53,748	0.53%
Savings deposits	11,218	0.06%	10,115	0.17%	9,182	0.17%
Time deposits	78,750	1.02%	84,395	1.21%	95,131	2.24%
Total deposits	\$ 206,521	0.84%	\$ 195,738	1.02%	\$ 187,043	2.03%

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The decrease in average cost of deposits for the year ended December 31, 2013 compared to the prior two years was a result of the continued historically low interest rate environment and a result of the impact of the Federal Open Market Committee (FOMC) decision to maintain low federal funds rates during that timeframe. It is expected that federal fund rates will remain at the current range of 0.00% to 0.25% through the end of 2014. During 2013, the prevailing market and competitive environment continued to yield strong competition in the pricing of interest-bearing deposit products, but overall pricing remained very low compared to long-term historical trends. Southern Heritage Bank does not compete solely on price, as strategies are focused more on customer relationships that attract and retain core deposit customers rather than time deposits.

Total deposits fell 1.5% from December 31, 2012 to December 31, 2013. Savings deposits grew \$1.8 million or 17.22% while demand deposit and time deposit balances fell \$3.7 million or 3.18% and \$807,000 or 1.00% during 2013, respectively. Savings deposit growth was primarily attributable to growth in Southern Heritage Bank's interest bearing savings accounts, including the Regular and Business Savings accounts, which carry competitive attractive rates compared to other options available to customers in time deposits and other brokerage or investment products.

Time deposits over \$100,000 comprised 50.64% of total time deposits as of December 31, 2013 compared to 46.33% as of year-end 2012. As of December 31, 2013, 36.44% of time deposits will mature or reprice over the next 12 months as the prevailing competitive market and rate environment continued to exhibit strong demand for shorter terms during 2013.

◆ Other Borrowings

In addition to deposits, SHB uses a combination of short-term and long-term borrowings to supplement its funding needs. Short-term borrowings are used to manage fluctuations in liquidity. Short-term borrowings were used on a very limited basis during the most recent two fiscal years because of SHB's strategic efforts to maintain a strong liquidity position, a shrinking loan portfolio, and steady core deposits.

Other borrowings at the holding company level carried a variable rate and consisted of trust-preferred debt in 2013 and 2012.

◆ Aggregate Contractual Obligations

At December 31, 2013, contractual obligations were due as follows (in thousands):

	Total	Less than One Year	One- Three Years	Three- Five Years	Greater than Five Years
Unfunded loan commitments	\$ 25,468	\$ 25,648	\$ -	\$ -	\$ -
Standby letters of credit	161	161	-	-	-
Total	\$ 25,629	\$ 25,629	\$ -	\$ -	\$ -

◆ Off-Balance Sheet Arrangements

Except for unfunded loan commitments and standby letters of credit, Southern Heritage Bank does not engage in a material amount of off-balance sheet activities and does not anticipate material changes in volume going forward.

Results of Operations

SHB reported consolidated net income of \$2.7 million for the years ended December 31, 2013 and 2012. Earnings per common share were \$2.05 for 2013 compared to \$1.95 for 2012. Return on average assets was 1.14% and 1.16% for the years ended December 31, 2013 and 2012, respectively. Return on average equity was 10.65%, and 10.68% for 2013 and 2012, respectively.

Net yield on average earning assets was 4.07% in 2013 compared to 4.17% in 2012. Although the net interest income as a percentage of average earning assets decreased in 2013, overall growth in earning assets resulted in an increase of \$92,000 in net interest income in 2013 compared to 2012.

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Total non-interest income for the year ended December 31, 2013 decreased \$1.2 million or 30.48% compared to the year ended December 31, 2012. The net decrease was primarily attributable to an \$885,000 decrease in net gains on sales of securities and a \$380,000 decrease in gain on sale of mortgage loans, which was due to a decrease in the volume of loans sold.

SHB's effective tax rate was 23.69% in each of the years ended December 31, 2013 and was 27.92% in 2012. SHB's effective tax rate is impacted by certain factors which can vary from year to year and include, but are not limited to, the volume of and related earnings on tax-free investments within Southern Heritage Bank's investment portfolio and other factors incidental to the financial services business. The decrease in the effective tax rate from 2012 to 2013 was primarily due to a higher level of tax exempt income in 2013.

Interest earning assets in 2013 averaged \$215.4 million at an average rate of 4.63% compared to \$208.4 million at an average rate of 4.85% in 2012 and \$216.8 million at an average rate of 5.05% in 2011. Interest bearing liabilities at December 31, 2013 averaged \$180.0 million at an average cost of 0.67% compared to \$169.2 million at an average cost of 0.89% at December 31, 2012 and \$164.5 million at an average cost of 1.17% at December 31, 2011.

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The following table presents the annual average balance sheet and net interest income analysis for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

	AVERAGE BALANCES AND RATES								
	2013			2012			2011		
	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate
Assets									
Interest earning assets:									
Loans (1)(2)(3)	\$ 142,062	\$ 7,450	5.24%	\$ 141,366	\$ 7,882	5.58%	\$ 140,100	\$ 7,981	5.70%
Investment securities:									
Taxable	19,884	484	2.43%	21,725	389	1.79%	27,210	711	2.61%
Tax exempt (4)	44,515	2,029	4.56%	38,268	1,836	4.80%	21,906	1,236	5.64%
Federal funds sold and other	8,948	14	0.16%	7,408	9	0.13%	7,392	10	0.14%
Total interest earning assets	215,409	9,977	4.63%	208,407	10,116	4.85%	216,803	9,938	5.05%
Non-interest earning assets:									
Allowance	(2,193)			(2,238)			(2,644)		
Loans held for sale	2,456			3,166			1,982		
Cash and due from banks	14,695			9,916			9,403		
Premises and equipment	4,306			4,520			4,621		
Other assets	4,341			4,769			6,833		
Total assets	\$ 239,014			\$ 228,540			\$ 216,803		
Liabilities and shareholders' equity									
Interest bearing liabilities									
Now accounts	\$ 72,970	\$ 246	0.34%	\$ 54,658	\$ 289	0.53%	\$ 39,628	\$ 258	0.65%
Money market	11,621	22	0.19%	13,775	40	0.29%	14,120	66	0.47%
Savings deposits	11,219	8	0.07%						