FIRST CITIZENS BANCSHARES INC /TN/
Form 10-K
March 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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

Commission file number 0-11709

First Citizens Bancshares, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices including zip code)

(731) 285-4410

(Registrant's telephone number, including area code)

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

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

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

Common Stock
(Title of class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K (Section 229.40) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

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

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant at June 30, 2007 was $90,071,704.

Of the registrant's only class of common stock (no par value) there were 3,624,806 shares outstanding as of December 31, 2007.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain information called for by Part III of Form 10-K is incorporated by reference to the Proxy Statement for our 2008 Annual Meeting of Stockholders to be filed with the Commission within 120 days after December 31, 2007.

PART I

FORWARD LOOKING STATEMENTS

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

Forward-looking statements are based upon information currently available and represent management's expectations or predictions of the future. Due to risks and uncertainties involved, actual results could differ materially from such forward-looking statements. Some of the potential factors that could affect our results are described in Item 1A, "Risk Factors." Examples of such risks and uncertainties include but are not limited to:

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

ITEM 1. BUSINESS

PRESENTATION OF AMOUNTS

All dollar amounts set forth below, other than per-share amounts, are in thousands unless otherwise noted. Certain balances have been reclassified to conform to current year presentation.

GENERAL

First Citizens Bancshares, Inc. ("Bancshares" or the "Company") is a Tennessee corporation organized and incorporated in 1982 and commenced operations in September 1983. Bancshares is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended and elected, effective April 19, 2000 to become a financial holding company pursuant to the provisions of the Gramm-Leach Bliley Act. As a financial holding company, Bancshares may engage in activities that are financial in nature or incidental to a financial activity. Permissible activities for a financial holding company are contained in Regulation Y of Federal Reserve regulations. Bancshares may continue to claim the benefits of financial holding company status so long as each depository institution owned by the company remains well capitalized and well managed. In addition, Bancshares may not commence new activities under sections 4(k) or 4(n) of the Bank Holding Company Act or acquire control of a company engaged in activities under those sections if any of the Company's insured depository institutions receive a rating of less than satisfactory under any examination conducted to determine compliance with the Community Reinvestment Act. Bancshares is a one-bank holding company. At December 31, 2007, the Corporation had total assets of $876 million compared to $831 million at December 31, 2006.

The Company's principal executive offices are located at One First Citizens Place, Dyersburg, Tennessee 38024. Our telephone number is 731-285-4410. Our website is www.firstcitizens-bank.com. In accordance with the Exchange Act and other related laws, Bancshares files reports with the United States Securities Exchange Commission ("SEC") including annual and quarterly reports (Forms 10-K and 10-Q) as well as current reports on Form 8-K and amendments to those reports, if any. As of the end of the second fiscal quarter of 2005, the market value of outstanding voting and non-voting common equity held by non-affiliates exceeded $75 million and thus, Bancshares began filing required periodic reports with the SEC under accelerated status beginning with the filing of Form 10-K for the year ended December 31, 2005.

We post to our website links to our annual, quarterly and current reports as soon as reasonably practicable after those reports are filed with or furnished to the SEC. Such reports can be downloaded and/or viewed free of charge through access to the links on our website. Shareholders may request a copy of the current, quarterly or annual reports without charge by contacting Judy Long, Secretary, First Citizens Bancshares, Inc., P. O. Box 370 Dyersburg, Tennessee 38025-0370.

Shareholders desiring to communicate directly with the Board of Directors of the Corporation may do so through the Corporate Governance Committee by contacting the Chairman or any member of the committee. Committee membership is identified on the Bank's website at www.firstcitizens-bank.com or may be obtained by calling the Audit Department of the Bank at 731-287-4275. Letters sent via the US Postal

Service may be mailed to Chairman, Corporate Governance Committee, First Citizens National Bank, Audit Department, P.O. Box 890, Dyersburg, TN 38025-0890.

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

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

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

	December 31 (In Thousands)		
	2007	**2006**	**2005**
Total Assets	$ 876,156	$ 831,420	$ 815,749
Total Deposits	690,595	666,063	635,509
Total Net Loans	578,311	542,623	540,387
Total Equity Capital	75,031	69,498	63,646

Individual bank performance is compared to industry standards through utilization of the Federal Reserve Board's Division of Banking Supervision and Regulation. Bancshares is grouped with peers with assets totaling $500 million to $1 billion. The group consisted of 410 bank holding companies per the September 30, 2007 Bank Holding Company Performance Report, which is the most recent report available as of the date of this report.

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

	12-31-2007 Bancshares	Peer**	12-31-2006 Bancshares	Peer	12-31-2005 Bancshares	Peer
Net Interest Income/Average Assets	3.36 %	3.61 %	3.60 %	3.74 %	3.53 %	3.81 %
Net Operating Income/Average Assets	1.08 %	0.96 %	1.10 %	1.01 %	1.10 %	1.10 %
Net Loan Losses/ Average Total Loans	0.13 %	0.13 %	0.23 %	0.11 %	0.09 %	0.12 %
Primary Capital/Average Assets	8.55 %	9.32 %	8.11 %	9.27 %	7.88 %	9.28 %
Cash Dividends/Net Income	45.93 %	30.82 %	46.04 %	29.09 %	47.03 %	25.17 %

**Peer information for December 31, 2007 is compared to the September 30, 2007 Bank Holding Company Performance Report (most recent report available).

EXPANSION

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

Bancshares acquired Munford Union Bank in May 2002. This acquisition originally added $115 million in assets housed in Tipton and Shelby Counties in Tennessee to Bancshares' balance sheet. Since this acquisition, the Bank has opened three additional branches in this area: Arlington in Shelby County that opened in 2003, Oakland in Fayette County which opened in June 2004 and Collierville in Shelby County which opened in April 2005. The assets of the Southwest Region (branches in Shelby, Tipton, and Fayette Counties) were approximately $250 million as of December 31, 2007.

In 2007, Bancshares expanded by opening loan production offices into Jackson, Tennessee and Franklin, Tennessee. Bancshares plans to open a full service branch in Franklin by the end of 2008 and in Jackson by the end of 2009.

CAPITAL ADEQUACY

Bancshares is subject to capital adequacy requirements imposed by the Federal Reserve. The Federal Reserve has adopted risk-based capital guidelines for bank holding companies. The minimum guideline for the ratio of total capital to risk weighted assets (including certain off-balance-sheet items such as standby letters of credit) is 8%, and the minimum ratio of Tier 1 Capital to risk-weighted assets is 4%. At least half of the Total Capital must be composed of common stock, minority interests in the equity capital accounts of consolidated subsidiaries, non-cumulative perpetual preferred stock and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (Tier 1 Capital). The remainder may consist of qualifying subordinated debt, certain types of mandatory convertible securities and perpetual debt, other preferred stock and a limited amount of loan loss reserves. At December 31, 2007, Bancshares' total risked-based capital ratio was 12.45%, significantly in excess of 8% mandated by regulation. The risk based capital ratio was 12.49% for 2006 and 12.11% for 2005. Our strategic plan directs the company to leverage capital by growing assets. Risk based capital focuses primarily on broad categories of credit risk and incorporates elements of transfer, interest rate and market risks. The calculation of risk-based capital ratio is accomplished by dividing qualifying capital by risk weighted assets. Tier 1 leverage ratio at year-end 2007 was 8.47%, with total capital as a percentage of total assets at 8.56%.

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

BANKING BUSINESS

The Company, headquartered in Dyersburg, Tennessee, is the bank holding company for the Bank and First Citizens (TN) Statutory Trusts III and IV. First Citizens (TN) Statutory Trusts III and IV relate to the Company's trust preferred debt and are not consolidated. Therefore, the trusts are accounted for under the equity method in accordance with generally accepted accounting principles. First Citizens Capital Assets, Inc., a wholly owned subsidiary of Bancshares, was liquidated in December 2006 with no material impact to the consolidated financial statements. The Bank is a diversified financial service institution, which provides banking and other financial services to its customers.

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

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

The Bank has the following banking locations in nine Tennessee counties: 15 full service branch banks, four drive-thru only branches, two loan production offices and 33 ATMs. A list of available banking locations and hours are noted on the Bank's website (www.firstcitizens-bank.com) under the "About Us" section. Subsidiaries of the Bank consist of the following:

- First Citizens Financial Plus, Inc., a bank service corporation wholly owned by the Bank, provides licensed brokerage services that allow the Bank to compete on a limited basis with numerous non-bank entities that pose a continuing threat to our customer base. The brokerage firm operates three locations in West Tennessee.

- White and Associates/First Citizens Insurance, LLC was chartered by the State of Tennessee and is a general insurance agency offering a full line of insurance products including casualty, life and health, and crop insurance. The Bank holds a 50% ownership in the company, which is accounted for using the equity method. The insurance agency operates nine offices in Northwest Tennessee.

- First Citizens/White and Associates Insurance Company, is organized and existing under the laws of the state of Arizona. Its principal activity is credit insurance. The Bank holds a 50 percent ownership in the company and 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 the income from the portfolio. First Citizens Investments owns the following:

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

- First Citizens Properties, Inc., a real estate investment trust (REIT), whose principal activity is to invest in participation interests of real estate loans made by the Bank and provides the Bank with an alternative vehicle for raising capital. First Citizens Holdings owns 98% and directors, executive officers and certain employees own the remaining 2%. The minority interest is immaterial to the consolidated financial statements of the Company.

COMPETITIVE ENVIRONMENT

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

The Bank builds and implements strategic plans and commitments to address competitive factors in the various markets it serves. The primary strategic focus is on obtaining and maintaining profitable customer relationships in all markets. The markets demand competitive pricing, but the Bank competes on high quality customer service that will attract and enhance loyal, profitable customers to the Bank. Industry surveys have consistently revealed that 65-70 percent of customers leave due to customer service issues. The Bank is committed to excellent customer service in all markets served as a means of branding and distinguishing itself from other financial institutions. Advertising and promotional activities such as newspaper and radio ads are also utilized to support defined strategic plans.

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In the markets it serves, the Bank offers a typical mix of interest-bearing transaction, savings and time deposit products as well as traditional non-interest bearing deposit accounts. The Bank is a leader in deposit market share compared to competitors in the Dyer, Fayette, Lauderdale, Obion, Tipton and Weakley County, Tennessee markets. Source of the following information is the Deposit Market Share Report as of June 30, 2007 prepared annually by the FDIC.

The Bank has consistently been a leader in market share of deposits in its markets for several years. The Bank's market share has been 19% to 20% in these six counties combined and in excess of 62 percent in Dyer County for the last three years.

The Bank also competes in the Shelby County market. As the size and composition of the Shelby County market is much larger and more diverse, Shelby County is excluded from the tabular presentation above. Market share in Shelby County is 0.46% and 0.47% in 2007 and 2006, respectively.

The following tabular analysis presents the number of offices, deposits (in thousands), and market share percentage for deposits:

Dyer, Fayette, Lauderdale, Obion, Tipton, and Weakley County Markets

(Banks only, Deposits Inside of Market)

As of June 30, 2007

Bank Name	# of Offices		Total Deposits 6/30/2007 *(in thousands)*	% of Market Share 06/30/07
First Citizens National Bank	15	$	563,815	19.32 %
First State Bank	14		578,305	19.82 %
Regions Bank	13		268,813	9.21 %
BancorpSouth Bank	6		162,230	5.56 %
Somerville Bank & Trust Co.	5		174,763	5.99 %
Bank of Fayette County	5		158,319	5.43 %
Bank of Ripley	5		138,660	4.75 %
Commercial Bank & Trust	2		119,583	4.10 %
Reelfoot Bank	6		90,849	3.11 %
INSOUTH Bank	2		90,849	3.11 %
Security Bank	6		82,916	2.84 %
First South Bank	2		63,995	2.19 %
Oakland Deposit Bank	3		79,108	2.71 %
Bank of Gleason	1		51,457	1.76 %
Brighton Bank	2		47,785	1.64 %
All others	15		246,624	8.46 %
Total	102	$	2,918,071	100.00 %

EMPLOYEES

Bancshares and the Bank employed a total of 264 full-time equivalent employees as of December 31, 2007. Bancshares and the Bank are committed to hiring and retaining high quality employees to execute strategic plans of the Company. Relationship with employees is satisfactory and no collective bargaining issues exist.

SUPERVISION AND REGULATION

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

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

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

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

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

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

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

USURY, RECENT LEGISLATION AND ECONOMIC ENVIRONMENT

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

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

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

IMPACT OF GRAMM LEACH-BLILEY ACT

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

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

BANK SECRECY ACT

Over the past thirty plus years, Congress has passed several laws impacting a financial institution's responsibilities relating to Bank Secrecy Act. The most recent change was in 2001 with the enactment of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ACT (the "Patriot Act"). The Patriot Act significantly amended and expanded the application of the Bank Secrecy Act, including enhanced measures regarding customer identity, new suspicious activity reporting rules and enhanced anti-money laundering programs. In 2005, there was no new legislation enacted relating to Bank Secrecy Act. However, on June 30, 2005, the Federal Financial Institutions Examination Council ("FFIEC") and the federal bank examination agencies released the new interagency "Bank Secrecy Act Anti-Money Laundering Examination Manual". The manual emphasizes a banking organization's responsibility to establish and implement risk-based policies, procedures, and processes to comply with the Bank Secrecy Act and safeguard its operations from money laundering and terrorist financing. It is a compilation of existing regulatory requirements, supervisory expectations, and sound practices for Bank Secrecy

Act/Anti-Money Laundering ("BSA/AML") compliance. An effective BSA/AML compliance program requires sound risk management; therefore, the manual also provides guidance on identifying and controlling risk associated with money laundering and terrorist financing. The development of this manual was a collaborative effort of the federal banking agencies and the Financial Crimes Enforcement Network ("FinCEN"), a bureau of the U. S. Department of the Treasury, to ensure consistency in the application of the BSA/AML requirements and consistent examinations of banking organizations.

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

PATRIOT ACT

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

FEDERAL DEPOSIT INSURANCE REFORM ACT OF 2005

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

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CUSTOMER INFORMATION SECURITY AND CUSTOMER FINANCIAL PRIVACY

The Board of Governors of the Federal Reserve System published guidelines for Customer Information Security and Customer Financial Privacy with a mandatory effective date of July 1, 2001. The Bank has established policies in adherence to the published guidelines.

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

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

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

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

- Identify and assess the risks that may threaten customer information;

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

Each institution may implement a security program appropriate to its size, complexity, nature and scope of its operations. The Bank has structured and implemented a financial security program that complies with all principal requirements of the act.

The regulatory agencies also published the *Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice*. Each financial institution is required to implement a response program to address unauthorized access to sensitive customer information maintained by the institution or its service providers. The Bank has implemented an appropriate response program, which includes: formation of an "Incident Response Team"; properly assessing and investigating any incident; notifying the Office of the Comptroller of the Currency (the "OOC") of any security breach, if necessary; taking appropriate steps to contain and control any incident; and notifying affected customers when required.

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

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

INSURANCE ACTIVITIES

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

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ITEM 1A. RISK FACTORS

Our asset value and earnings as well as the value of our common stock is subject to various types of risks. Our ability to continue our history of strong financial performance and return on investment is dependent on the ability to continue to effectively manage multiple areas of risk. Significant risks can be broadly divided into three categories: credit risk, market risk and operational risks. Such risk categories are discussed as follows:

CREDIT RISK

Credit risks are risks to earnings and capital that a borrower may fail to meet the terms of any contract with the Bank. Many factors may impact the risk of credit losses on loans and include but are not limited to types and terms of loans within the portfolio, creditworthiness of borrowers, and the value and marketability of collateral securing various loans. Changes in general economic conditions of markets served also impact the risk of credit losses. Some credit losses are expected and the levels of losses may vary over time. Credit risks are managed throughout the lending process beginning with strict underwriting guidelines designed to control risks and limit exposure. Then, our management uses various assumptions and judgments to evaluate on a quarterly basis the adequacy of the allowance for loan losses in accordance with generally accepted accounting principles as well as regulatory guidelines. If management's estimate of credit losses proves to be incorrect resulting in an allowance for loan losses inadequate to absorb losses or if regulatory authorities require an increase to the allowance as a result of their examination process, earnings and capital could be significantly and adversely impacted.

Current economic conditions have increased credit risks across the industry in 2007 and such trends are expected to continue in 2008. The Bank does not participate in sub-prime lending or non-traditional mortgages, thus, our increased credit risk exposure has been limited compared to that of institutions that did participate in such activities.

MARKET RISK

Market risk consists primarily of interest rate and liquidity risk. Interest income on loans and investments is our largest source of income and interest expense on deposits and borrowings is our largest expense. The level and volatility of interest rates directly impact our earnings and capital.

Interest rates are largely driven by monetary policies set by the Federal Open Market Committee ("FOMC") and the shape of the yield curve. The FOMC sets interest rates to influence the cost and availability of money and credit to help promote national economic goals. The shape of the yield curve is the relationship of shorter-term rates to longer-term rates. The FOMC cut rates 175 basis points from September 2007 to January 2008, which increases the Bank's interest rate risk for 2008. Although the Bank maintains a fairly neutral position for interest rate risk, steep rate cuts in a short period of time coupled with competitive factors pressuring pricing of loans and deposits in our current economic environment will continue to exert pressure on net interest margins.

Competition is another significant factor that directly affects the net interest margin and therefore our overall earnings. Historically, banks competed with other banks. As discussed in the Competitive Environment section of Item 1, we now compete against a much broader range of entities that offer similar products and services. Some of those entities include insurance companies, finance companies, credit unions, and industrial loan companies. We must be able to compete in our markets in order to remain profitable. Competition is often intense in the pricing of both loans and deposits and can lead to reduced earnings if we earn less on loans or pay more for deposits in order to compete against such a diverse mix of competitors. Changes in technology and regulation, the trend of consolidations in the financial services industry, and competition for experienced, qualified employees also affect our ability to compete.

Liquidity risk relates to our ability to meet our short-term financial obligations. We are dependent upon dividends from the Bank as a primary source of funds. Funding of the Bank is accomplished through diversified sources in order to manage liquidity risks. The cost of such funding directly impacts financial results. The quantity, quality and cost of funding sources available to us and the Bank could be significantly impacted by the following: our financial results and organizational changes, changes in our loan portfolio or other assets, changes to our corporate and/or regulatory structure, general economic conditions, current interest rate market environment, changes in supervision and regulation of our industry. The current trend of decreasing federal funds rates and LIBOR rates in January 2008 have lowered costs of wholesale funding. Pricing of retail deposits is also trending downward but remains very competitive.

See also Item 7A of this report for additional discussion of liquidity and interest rate sensitivity.

OPERATIONAL RISK

Transaction risk, compliance risk, strategic risk, and reputation risk are our primary operational risks. Transaction risk is the risk to earnings and capital which could result from an inability to deliver products or services. Transaction risk can arise from ineffective or inefficient processes, fraud, theft, breaches in data security, and exposure of other external threats or events. Losses related to transaction risk can occur from within our organization or as a result of errors or disruption from a vendor or other outside party for which we have limited control, if any. Two specific types of transaction risk include fraud risk and systemic risk. The risk that a payment transaction will be initiated or altered in an attempt to misdirect or misappropriate funds. Examples of fraud risk are embezzlement by a financial institution employee or by an interloper who gains unauthorized access to a system. Another type of transaction risk, systemic risk is the risk of inability of one funds transfer system participant to settle its commitments, which causes other participants to be unable to settle their commitments. Risk management procedures to identify, measure, monitor and control these types of risk are critical to successful management of operational risks.

Compliance risk is the risk to capital and earnings as a result of violations of applicable laws, regulations and ethical standards. Our board of directors and executive management lead by example with a commitment to honesty and integrity which provide the foundation for the Company's core values. The board of directors and management also implemented and enforce a Code of Conduct which is posted on our website (www.firstcitizens-bank.com).

We are subject to extensive regulation including banking and financial services laws, tax legislation, accounting standards and interpretations thereof. Thus, certain activities may be restricted such as the ability to pay dividends, ability to participate in mergers and acquisitions, and location of offices. The scope, complexity and cost of corporate governance, reporting and disclosure procedures required to comply with the Sarbanes-Oxley Act of 2002 as well as other regulations have significantly increased compliance costs over the past three years. Compliance costs are expected to continue to escalate at a significant level. Legislation introduced or changed at the state or national level has the potential to impact the banking industry and its operating environment substantially. We cannot determine whether such legislation will be enacted or the ultimate impact on our financial position or earnings.

Strategic risk arises from adverse business decisions or improper implementation of strategic action plans. Current strategies include growth and development of current markets as well as expansion into new markets. In addition to market expansion geographically, the range of products and services offered is also being expanded to include a more diverse range of products and services, including but not limited to new electronic banking products and services for commercial customers. If implementation of market and product strategies is ineffective, our financial results could be adversely impacted.

Reputation risk is the risk of negative public opinion. The public perception of our ability to conduct business and expand our customer base is affected by practices of our board, management and employees. Significant relationships with vendors, customers and other external parties may also affect our reputation. Adverse perceptions about our business practices or practices of those with whom we have significant relationships, could adversely impact our financial results or condition. The board and executive management oversee the management of reputation risks.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank owns and occupies the following properties:

- Main branch and executive offices are in a six-story building at One First Citizens Place (formerly 200 West Court), Dyersburg, Tennessee. This property also includes the Banking Annex, which has a municipal address of 215-219 Masonic Street. The Annex was converted into a new operations center in 2006 which houses the Bank's operations, information technology, call center, bank security and mail departments.
- The Downtown Drive-Thru Branch is located at 113 South Church Street, Dyersburg, Tennessee, and is a remote motor bank with six drive-thru lanes and a drive-up ATM lane.
- The Green Village Office located at 620 U.S. 51 Bypass adjacent to the Green Village Shopping Center in Dyersburg, Tennessee, is a full service banking facility.
- The Newbern Branch, a full service facility is located on North Monroe Street, Newbern, Tennessee.
- The Industrial Park Branch located at 2211 St. John Avenue, Dyersburg, Tennessee, is a full service banking facility.
- The Ripley, Lauderdale County full service facility is located at 316 Cleveland Street in Ripley, Tennessee.
- The Troy Branch is full service banking facility located on Harper Street just west of Highway 51 in Troy, Tennessee.
- The Union City branch operates one full service facility, two motor branches and three ATM's in Obion County . The main office is located at 100 Washington Avenue in Union City, Tennessee. Motor branches are located at First and Harrison Streets across from the main office and at 1509 East Reelfoot Avenue in Union City.
- The Martin office is located at 200 University Avenue, Martin, Tennessee, and is a full service banking facility.
- The Munford, Tennessee branch is located at 1426 Munford Avenue. A remote building located at 1483 Munford Avenue serves as a drive-thru facility.
- Atoka full service branch is located on the Atoka-Idaville Road at 123 Atoka-Munford Avenue, Atoka, Tennessee.
- Millington Branch is a full service branch facility located at 8170 Highway 51 N. Millington, Shelby County, Tennessee.
- Full service Bartlett branch is located at 7580 Highway 70, Bartlett, Shelby County, Tennessee.
- Arlington branch located at 5845 Airline Road, Arlington, Tennessee serves as a full service branch facility.
- Oakland branch was opened in February 2005 at 7285 Highway 64, Oakland, Fayette County, Tennessee.
- The Collierville, Tennessee branch facility opened January 2006 and is located at 3668 South Houston Levee in Collierville.

- A building and lot at 1304 Murfreesboro Road in Franklin, Williamson County, Tennessee was purchased in 2007. The building is currently being renovated and is expected to open as a full service branch by the end of second quarter 2008.

- A lot located on Christmasville Cove in Jackson was purchased in 2007 and will be used to construct a full service branch location in two to five years.

- In February 2008, a lot located on Union University Drive in Jackson, Tennessee was purchased. Construction of a full service branch at this location is expected to begin in late 2008 or early 2009.

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

ITEM 3. LEGAL PROCEEDINGS

Various legal claims arise from time to time through the normal course of business of the Company and its subsidiaries. There is no material pending or threatened litigation as of December 31, 2007.

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

During the fourth quarter of the year ending December 31, 2007 there were no meetings, annual or special, of the shareholders of Bancshares. No matters were submitted to a vote of the shareholders nor were proxies solicited by management or any other person.

PART II

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

As of December 31, 2007, there were 1,073 shareholders of Bancshares' common stock. Bancshares' common stock is not actively traded on any market. The following graph reflects the Company's cumulative return (including dividends) as compared to the S&P 500 and Southeast Bank Stocks over a five-year period:

Per share prices reflected in the following table are based on records of actual sales during stated time periods of which management of Bancshares is aware. These records may not include all sales during these time periods if sale prices were not reported to Bancshares in connection with a transfer of shares. The range of stock prices for 2006 and 2007 by quarter is as follows:

Quarter Ended		Low		High
March 31, 2006	$	33.00	$	33.00
June 30, 2006	$	33.00	$	33.00
September 30, 2006	$	33.00	$	34.00
December 31, 2006	$	34.00	$	34.00
March 31, 2007	$	35.00	$	35.00
June 30, 2007	$	35.00	$	36.45
September 30, 2007	$	36.45	$	36.45
December 31, 2007	$	34.00	$	36.45

Aggregate dividends paid per share were $1.16 in each of 2007 and 2006. Dividends were paid quarterly as follows for 2007 and 2006:

Quarter Declared:		2007 Dividends Per Share		2006 Dividends Per Share
First Quarter	$	0.29	$	0.29
Second Quarter	$	0.29	$	0.29
Third Quarter	$	0.29	$	0.29
Fourth Quarter	$	0.29	$	