



Stock Symbol: CZFS.OB

Dear Shareholders and Friends:

October 28, 2011

As we quickly approach the end of 2011, it is my pleasure to communicate to you, on behalf of the Board of Directors and our employees, our 3rd quarter 2011 financial results. Our financial performance continues to be outstanding as the 3rd quarter results reflect our best quarterly performance in the history of our bank. First Citizens continues to remain a strong, well-capitalized, local community bank committed to serving our communities and customers, as well as providing outstanding shareholder return and value.

Our net income for the nine months ended September 30, 2011 totaled \$9,355,000 which compares to the record amount of \$8,570,000 for the same period last year. This represents an increase of \$785,000, or 9.2%. Earnings per share of \$3.21 increased 9.6% from \$2.93 per share last year. Annualized return on equity for the comparable periods was 17.65% and 18.31%, while return on assets was 1.49% and 1.51%, respectively.

Net income for the three months ended September 30, 2011 totaled \$3,378,000 which compares to \$2,897,000 for the third quarter of 2010. This represents an increase of \$481,000, or 16.6%. Earnings per share of \$1.16 increased 17.2% from \$.99 per share last year. Annualized return on equity for the comparable periods was 18.48% and 17.98%, while return on assets was 1.57% and 1.49%, respectively.

Net interest income, before the provision for loan loss, increased from \$20,569,000 for the nine months ended September 30, 2010 to \$21,219,000 this year, an increase of \$650,000, or 3.2%. On a tax equivalent basis, our net interest margin on interest earning assets has declined from 4.23% last year to 3.94% this year. Most of this decrease is attributable to declining yields on interest earning assets, particularly yields on investment securities. Our investment strategy, as this period of low interest rates persists, is to invest primarily in short-term investments. This strategy will position us to have available liquidity when market conditions and investment opportunities improve, and enables us to manage for both current and longer term returns. We have been able to somewhat off-set declining investment yields by decreasing our deposit costs by adding more low cost deposits, and decreasing rates on our certificates of deposit as they continue to re-price within this extended period of low rates.

As of September 30, 2011, total assets were \$859.2 million, which was an increase of \$46.7 million or 5.7% from December 31, 2010, and an increase of \$69.8 million from September 30, 2010, or 8.8%. Our investment portfolio totaled \$303.2 million as of September 30, 2011. This compares to \$251.3 million as of December 31, 2010 and \$230.5 million as of September 30, 2010. Net loans have increased \$4.7 million through September 30, 2011 to a total of \$472.3 million. Loan growth remains modest, particularly due to our continued commitment in maintaining disciplined underwriting standards. We continue to recognize the opportunities created by the Marcellus Shale natural gas exploration efforts, but pursue these opportunities prudently and cautiously. We are also aware that economic recovery is moderate at best, which has contributed to overall weak loan demand. Deposits have increased \$38.8 million or 5.7% since December 31, 2010, and \$64.3 million, or 9.8% since September 30, 2010.

Our provision for loan losses for the first nine months of 2011 was \$525,000 compared with \$840,000 for the same period last year. The decrease is attributable to improved credit quality, which continues to compare favorably to peer. Non-performing assets as a percent of loans was 2.22% as of September 30, 2011, which compares to 2.80% as of December. Overall, our present level of non-performing assets is related to a couple larger commercial loans on non-accrual status of which 60.2% remain current with their payments.

Stockholders' equity totaled \$78.9 million at September 30, 2011, representing an increase of \$10.2 million, or 14.8%, from December 31, 2010. Compared to September 30, 2010, stockholders' equity has increased \$9.2 million, or 13.3%. Book value per share was \$25.55 compared with \$22.70 as of September 30, 2010, an increase of 12.6%. First Citizens continues to remain well capitalized based upon regulatory guidelines. On October 4, 2011, a cash dividend of \$.27 per share was declared and will be paid on October 28, 2011 to shareholders of record as of October 21, 2011. The cash dividend of \$.27 per share represents an increase of 3.8% over the October 2010 dividend.

At this point, I would like to extend my sincere thoughts and prayers out to our friends and communities which have been severely impacted by the recent flooding. While there remains much work to be done, I'm proud to report that \$50,000 has been raised from various fund raisers and other efforts undertaken by our employees, customers and communities, as well as a significant contribution by First Citizens to help the local Red Cross sustain their relief efforts and support the recovery process.

As always, I would like to express my sincere thanks to our employees, local board members, and the Board of Directors for their support, determination and dedication. We remain committed to being a financially strong, independent, community bank servicing the needs of individuals, businesses and communities in our area. We also remain dedicated to providing you, our shareholders, with total shareholder return. I personally welcome you to stop by one of our branches or visit us online at www.firstcitizensbank.com to see what we are all about and what we have to offer you.

Sincerely,

Randall E. Black
Chief Executive Officer and President

Consolidated Balance Sheet

(Unaudited - In thousands, except share data)

	September 30 2011	December 31 2010	September 30 2010
ASSETS:			
Total cash and cash equivalents	\$ 34,811	\$ 43,995	\$ 40,066
Available-for-sale securities	303,239	251,303	230,493
Loans (net of allowance for loan losses 2011, \$6,323; December 31, 2010, \$5,915; and September 30, 2010, \$5,588)	472,289	467,602	469,204
Other assets	48,849	49,626	49,592
TOTAL ASSETS	\$ 859,188	\$ 812,526	\$ 789,355
LIABILITIES:			
Total deposits	\$ 719,545	\$ 680,711	\$ 655,240
Borrowed funds	52,845	55,996	56,454
Other liabilities	7,936	7,129	8,039
TOTAL LIABILITIES	780,326	743,836	719,733
STOCKHOLDERS' EQUITY	78,862	68,690	69,622
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 859,188	\$ 812,526	\$ 789,355

Consolidated Statement of Income

(Unaudited - In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Interest income	\$ 9,613	\$ 9,770	\$ 28,647	\$ 29,267
Interest expense	2,406	2,757	7,428	8,698
Net interest income	7,207	7,013	21,219	20,569
Provision for loan losses	150	300	525	840
Net interest income after provision for loan losses	7,057	6,713	20,694	19,729
Investment securities gains, net	117	-	351	99
Other non-interest income	1,612	1,445	4,565	4,260
Non-interest expense	4,399	4,486	13,659	13,170
Income before provision for income taxes	4,387	3,672	11,951	10,918
Provision for income taxes	1,009	775	2,596	2,348
NET INCOME	\$ 3,378	\$ 2,897	\$ 9,355	\$ 8,570

Performance Ratio and Share Data:

	2011	2010	2011	2010
Return on average assets (annualized)	1.57%	1.49%	1.49%	1.51%
Return on average equity (annualized)	18.48%	17.98%	17.65%	18.31%
Net interest margin (tax equivalent)	3.90%	4.17%	3.94%	4.23%
Cash dividends paid per share	\$ 0.265	\$ 0.255	\$ 0.790	\$ 0.760
Earnings per share	\$ 1.16	\$ 0.99	\$ 3.21	\$ 2.93
Weighted average shares outstanding	2,917,158	2,920,307	2,916,739	2,924,746
Book value per share (at end of period)			\$ 25.55	\$ 22.70
Common shares outstanding (at end of period)			2,908,657	2,891,697
Nonperforming assets to total loans (at end of period)			2.22%	3.01%

Per share calculations give retroactive effect to stock dividends declared by the Company