



# **We are in your corner.**

2019 ANNUAL REPORT



Citizens Holding Company<sup>SM</sup>

Dear Valued Stockholder:



GREG MCKEE, President and CEO

I am pleased to present the annual report and a summary of the Company's accomplishments for 2019. We experienced positive trends in several areas that should enhance the value of your investment. These positive trends include growth, both internally, and externally due to the acquisition of Charter Bank.

During 2019 total loans increased internally by 9.23% while deposits grew by 3.07%. The acquisition brought external growth and increased total assets by another \$157.1 million. Due to combined internal growth and the acquisition, the bank ended 2019 with \$1.195 billion in total assets and total capital of \$110.8 million. I am very pleased with our growth accomplishments for the year.

Along with the already stated asset growth, we added some valuable members to our Gulf Coast team and to the overall bank team. It has been very encouraging to see the interaction of these individuals and the integration of processes that has happened over the last few months. This combination will give the Bank five good branch locations across the Coast. This begins a network of convenience for existing and future customer relationships. The Gulf Coast division is well positioned to be an enhancement in many ways for the Bank. This should enable the Bank to carry our brand of banking further into more Mississippi communities.

In November, we were saddened to learn that Steve Webb passed away. Steve was a former Director, President, CEO and Chairman of Citizens Bank and Citizens Holding Company. During his tenure he oversaw the formation of the Holding Company and growth of the Bank, both geographically and in asset size. I have been a beneficiary of Steve's work and legacy. The bank and I have had a great foundation to stand on as we grow and prosper, and Steve was an integral part of that foundation. I am thankful to Steve for the lessons he taught and his accomplishments that made us a better company.

I hope it is evident to the owners of this great company that the Board of Directors and staff are continually analyzing any opportunity that would further maximize your investment. As the financial services landscape continues to change, we will continue to evolve in technology, personnel and products in order to remain relevant within the market. But we will do that with the same commitment to integrity, customer service and sound business practices that have been in place since 1908.

As I have stated many times, because we are blessed with great stockholders, great customers and great employees, our Company continues to prosper. I appreciate your continued participation and support in all we do to improve the Company.

It is an honor to be able to serve you and I look forward to what we can accomplish together in 2020.

Sincerely,

A handwritten signature in black ink that reads "Greg McKee". The signature is fluid and cursive.

Greg McKee  
President and CEO



# Our Commitment To Customers Expands With Our Footprint

Our goal is to keep the heart of our customers in all we do, as we feel this is an important ingredient to our success. This takes always looking for ways to improve and simplify the banking process through customer-focused, innovative technology while offering an array of digital products that exceed customer expectations.

Citizens Holding Company, the parent company of The Citizens Bank of Philadelphia, recently acquired Charter Bank. We saw the completion of the merger as a chance to do more than expand our corporate footprint. We got to introduce our unique brand of banking to a new family of customers.

Based upon financial data as of December 31, 2019, the merger produced some impressive numbers. The combined company has approximately \$1.2 billion in assets, deposits of \$899 million and gross loans of \$577 million. The acquisition was completed in October 2019.







# Creating the 10th Largest Bank On The Mississippi Gulf Coast

Prior to the merger on March 31, 2019, Charter had approximately \$161 million in total assets, \$134 million in deposits and \$110 million in gross loans. Charter operates four branches in the Mississippi coastal counties of Harrison and Jackson. Combining our banks expands Citizens' presence in its southern markets, creating the 10th largest bank by deposits in the combined counties of Hancock, Harrison and Jackson - otherwise known as the Mississippi Gulf Coast.

Gregory E. Cronin, former Chief Executive Officer of Charter, now serves in a leadership position with Citizens. "Our Charter Bank Team is enthusiastic to have joined a well-respected community bank with a history of providing exceptional products and services to its markets," remarked Cronin. "We believe that we can now better serve our customers in our local communities."

Greg McKee, President and CEO of Citizens, also saw Charter as a good fit for Citizens. "Charter was founded by a group of individual bankers who believed their customers had a need for better banking services, and they have built their institution around the philosophy of making decisions that best serve the interests of their customers. At Citizens we share these values and are excited to have added a similar franchise into our fold while bolstering our presence across the Mississippi Gulf Coast."





# Mississippi Bankers Association Elects Greg McKee Chairman

In 2019, we were proud to share the news that Greg McKee has been elected Chairman of the Mississippi Bankers Association (MBA) for 2019–2020. As his leadership has made us a great bank, now he’s working to lead great banking in Mississippi. The association depends on the strong, experienced leadership provided by Mississippi bankers serving as officers and executive committee members.

Established in 1889, the MBA is a private membership organization that brings together and represents banks in the state of Mississippi. The association has a voice in legislative and regulatory matters, offers education through seminars and conferences and provides information through various avenues such as the *Mississippi Bankers* magazine.




# THE MISSISSIPPI Banker

SUMMER 2019  
VOLUME 104 • NUMBER 3

GREG MCKEE  
131st CHAIRMAN  
Mississippi Bankers Association







*"It's always our goal to provide the best services and amenities to please our customers and help them reach their financial goals. We couldn't do this without an awesome team of employees at our 26 branches across the state. We're excited for the opportunity to continue serving our customers with Best in Class service."*



Forbes2019

**BEST-IN-STATE  
BANKS**

Powered by STATISTA

# The Citizens Bank Named One of 2019's Best In-State Banks By Forbes Magazine

The Citizens Bank has once again been honored as one of America's Best Banks, selected from 5,400 banks in the U.S. for 2019. Forbes Magazine partnered with market research firm Statista to produce their second annual look at the best banks in each state, pinpointing which banks customers graded the highest. According to Forbes, more than 25,000 customers in the U.S. were surveyed for their opinions on their current and former banking relationships.

Financial institutions were scored on overall recommendations and satisfaction based on five criteria: trust, terms and conditions, branch services, digital services and financial advice. Customers were asked 20 questions about their financial dealings with their bank. For everyone at Citizens, there's no greater reward than being selected by our own customers as one of the best banks in the country.

The Citizens Bank was selected along with just three other banks in Mississippi. On average, between one and five banks in larger states were awarded best-in-state designation, based on the number of responses in each state. Overall, 149 banks qualified, or just 3.1% of the total number of U.S. financial institutions.





# Partnering With Community

Our employees stand out for generously giving their time, talent, expertise and money to the organizations that are working to improve their local communities. Staying involved with community non-profit organizations is a top priority for everyone at Citizens. From organizations such as Habitat for Humanity or the Boy and Girl Scouts to the Salvation Army, they provide vital services and benefits that better the quality of life of those around us. Helping our neighbors and friends isn't just something we do, it's who we are.



We partner with the **Senior Housing Crime Prevention Foundation** to provide protection and an enhanced quality of life for vulnerable senior residents in our community. The program is completely funded by the banking industry through the Senior Housing Crime Prevention Foundation's CRA Partners program. The bank awarded its sponsored facility with a monetary Wish Come True grant, that funded a common area activity where residents can keep their minds strong and their muscles moving.



The bank participated in **United Way of East Mississippi's Stuff the Bus Campaign** at The Depot in Philadelphia. The Stuff the Bus campaign encourages people to donate school supplies, uniforms, and money to equip elementary students in Neshoba County.

Our employees are also actively involved in local **Kiwanis and Optimist clubs** in their hometowns throughout Mississippi. Both clubs have an annual pancake breakfast fundraiser. "It's a lot of fun," said Travis Moore and Mike Shelby who both volunteer to cook pancakes and sausage. "The money raised goes back in the community to support many worthwhile community projects."



**Diamond Dreams**, a special needs softball league for local area children, was able to kick off their season on their brand-new field at Northside Park in Philadelphia, where The Citizens Bank served food to all the teams that participated in their season opener.



We also sponsored **United Way of East Mississippi's Power of the Purse** event at the MSU Riley Center in Meridian to benefit Dolly Parton's Imagination Library, a community impact program of United Way of East Mississippi. Imagination Library provides a book a month to local area children from birth until they turn 5.



At Citizens, we know donations to **United Way** help fund valuable local non-profit organizations that meet the needs of individuals and communities throughout Mississippi. Bank employees serve as directors and officers of the United Way across central and south Mississippi.



In October, we helped to raise over \$18,000 for the **American Cancer Society** by participating in the Cruisin' for a Cure campaign to benefit the fight against breast cancer. The Cruisin' for a Cure pink Chevrolet Tahoe featured signatures of all those in central Mississippi who donated to the American Cancer Society and included our logo along with other area businesses. The truck visited schools in Attala, Leake and Neshoba Counties where school children turned out in full force. The truck was also featured at local football games and other events and many businesses in the area hosted the truck for live radio broadcasts.



The Citizens Bank Hattiesburg Branch volunteered at **Hattiesburg Salvation Army** in November. Employees unloaded the food truck and helped sort the canned goods for a Thanksgiving meal for needy area residents and the homeless.



In November, our Flowood Branch participated in the 2019 Heart Walk in Jackson for **The American Heart Association**, a yearly fundraising event to help prevent heart disease.



During December, our mortgage department hosted its first annual "Build A Gingerbread House" event. A family affair, mortgage loan customers and realtors were invited to build Gingerbread houses and enjoy Christmas treats together.



# Partnering For Education



Since our founding, education has remained an area of focus. Last year, through our **School Stash Debit Card program**, one local school purchased additional Google Chrome books for students from funds received from the banks branded debit card program.



**Neshoba Central School District** recognized The Citizens Bank for contributing to their new state-of-the-art video scoreboard during the 2019 Football Season.



Citizens had a booth at **Mississippi State's annual Dawg Days Welcome Week event** series. The Center for Student Activities sponsored its ninth annual "Shades of Starkville" on the University's historic Drill Field. During the event, booths were set up to enable students to meet with representatives of local businesses and learn how to get involved with student organizations on campus. Water, samples, brochures and other promotional items were given out to students who stopped by the bank's booth.



Our main branch in Philadelphia hosted the **Neshoba Central Elementary School's Kindergarten** program field trip. The students toured the branch and got to learn firsthand about banking and the importance of savings.





Our bank customers continue to support their local schools by requesting and using the Bank's schools branded debit card to provide their school with \$0.05 for every qualified debit card transaction they make. We have 38 schools who participate in the **School Stash Debit Card program**. This year the bank donated a total of \$43,512.50 to the participating schools.

We help sponsor a summer reading program hosted by the **Neshoba County Public Library** that kicked off with a camp in March and was designed to help advance reading skills. The camp ended with a field trip to the new Mississippi Arts + Entertainment Experience Museum in Meridian. As a graduation gift, each student was given a book at the end of the camp that closely matched their reading level.

In August, we recognized Victoria Seale as our **2019 Scholarship Recipient** at East Central Community College's Scholarship Recognition Reception in Decatur.



During the first week in November, over 65 Citizens Bank employees participated in **A Banker in Every Classroom Week** at schools across our state. Each year the Mississippi Bankers Association promotes the first week of November as A Banker in Every Classroom Week, a program that brings together Mississippi bankers and teachers at the local level to promote financial literacy for K-12 students. This successful state-wide program has reached over 100,000 Mississippi K-12 students and gives Mississippi bankers the opportunity to do what they do best: build relationships in their communities!

In October, our Sebastopol Branch participated in **East Central Community College's Phi Theta Kappa Financial Literacy Fair** in Walnut Grove. During 2019, bank employees from Attala, Biloxi, Lauderdale, Newton, Philadelphia, Scott and Winston counties participated in College and Career Day's in their local community school districts.



# The Latest Innovative Products and Services

Building consumer and business relationships throughout our market areas is critical to expanding our customer base and sustaining growth. While this personal touch is The Citizens Bank's signature, we recognize the need to provide new technologies that enhance our customers' banking experience and help make their lives a little easier. We offer a robust suite of financial solutions, including Treasury Management services that can be tailored to meet the needs of consumers and businesses to help them more efficiently work towards their financial goals.

Our recent merger with Charter Bank expanded our mortgage department with seven mortgage loan originators dedicated to meeting the needs of customers who want to build, purchase or refinance homes in our communities.

In December, Citizens **Online Banking system** added an upgrade our customers have been waiting for. Customers can now download the new Citizens Bank Apple Watch® App and edit recurring transfers. Future upgrades will occur with little to no downtime.

With the new **TCB Mobile Deposit App** for Business, small businesses can now deposit checks directly into their business checking account from almost anywhere, anytime. Whenever a business customer has a check in their hand, they can open the app and take a photo of their check with their smart phone to make the deposit without making a trip.

**ACH Services Automated Clearing House** (ACH) allows businesses to provide direct deposit of payroll, pay vendors, and collect invoices, dues and other receivables.

**Cash Management** Is a web-based, highly secure, single point of access to The Citizens Bank's financial services including balance and transaction reporting, balance alerts, onscreen check images, secure e-mail, tokens, wire transfers, stop payments, positive pay, account reconciliation, mobile authorization preferences, approve ACH files via mobile device, Bill Pay services and more.

**Merchant Services** is a local, specialized support resource for credit card processing with trained specialists and the latest technology in standard terminals, mobile, web and software processing systems.

**Lockbox Services** help businesses collect payments more efficiently and through electronic conversion. Instead of customers handling incoming payments themselves, now they can benefit from more accurate and timely information, faster processing and improved management of receivables.

The **TCB Business Remote Deposit** allows businesses to make check deposits to their account without leaving the office, saving time by eliminating trips to the branch and increasing cash flow by allowing for more frequent deposits.



The **TCB Mobile App** is now available on Apple Watch® and will give customers the ultimate convenience of keeping tabs on their money—right on their wrist. With the quick balance feature, it's easy for customers to view account balances and their last 20 transactions. Also, they can see balances at a glance with just the touch of a finger, without having to enter the app.



## The bank's security mitigation techniques:

The Bank has implemented an artificial intelligence engine that learns unique communications patterns to identify and block real-time spear phishing attempts. The engine also helps to protect against domain spoofing and brand hijacking by collecting and analyzing DMARC data. The system also leverages the insights from its AI platform to identify and train high-risk individuals within the Bank through the use of simulated spear phishing attacks.

Hardware authentication devices that support one-time passwords, public-key encryption and authentication, and the Universal 2nd Factor protocol developed by the FIDO Alliance are now being used by key users throughout the Bank for multi-factor authentication. This technology allows users to securely log into their accounts by emitting one-time passwords or using a FIDO-based public/private key pair generated by the hardware device.

A greater emphasis has been placed on higher risk and key individuals throughout the Bank in the area of Identity Management. Expanded controls have been put in place to protect the accounts of these individuals.

The bank is utilizing a 24 x 7 Managed Security Provider that uses Best in Class tools to provide the most powerful enterprise level solutions available to any sized organization. The bank is further protected through the use of their managed email security, SEIM, and managed firewall services. Their Security Operations Center monitors bank networks in real-time through the use of machine learning systems that combines real-time threat intelligence from industry tools, deployments, and industry data to form the most comprehensive cybersecurity platform available.

The bank has implemented an industry leading Email Security Gateway to provide the following:

- Superior blocking of known and unknown threats
- Identification and remediation for compromised accounts
- Orchestration and automation to speed threat response

The bank's Managed Security Provider continuously monitors for both malware and non-malware email related threats, stopping them before reaching the email gateway. In addition to stopping known virus/malware, questionable email content is reviewed to ensure it is safe for the bank's environment before releasing it to recipients. By utilizing both the managed firewall and managed email security services in concert, the bank receives the added benefit of integration which provides more visibility, deeper insight and intelligence.





**BOARD OF DIRECTORS**

**Greg Cronin**  
Gulf Coast President  
The Citizens Bank

**Don Fulton**  
Retired  
W. G. Yates and Sons  
Construction Company

**Donald L. Kilgore**  
Special Assistant Attorney  
General, State of Mississippi

**David A. King**  
Proprietor,  
Philadelphia Motor Company

**Herbert A. King**  
Chairman,  
Civil Engineer, King  
Engineering Associates, Inc.

**Adam Mars**  
Business Manager,  
Mars, Mars, Mars & Chalmers

**Craig Dungan, MD**  
Physician,  
Meridian Gastroenterology PLLC

**Greg L. McKee**  
President & Chief Executive Officer,  
Citizens Holding Company  
and The Citizens Bank

**David P. Webb**  
Attorney,  
Baker, Donelson, Bearman, Cald-  
well & Berkowitz, PC

**A.T. Williams**  
Certified Public Accountant,  
A.T. Williams, CPA

**Terrell E. Winstead**  
Chief Financial Officer,  
Molpus Woodlands Group

**BANK OFFICERS**

**Greg McKee**  
President  
Chief Executive Officer

**Robert T. Smith**  
Senior Vice President  
Chief Financial Officer

**Mark Taylor**  
Senior Vice President  
Chief Operating Officer  
Trust Officer

**Ray Stone**  
Senior Vice President  
Chief Credit Officer

**Liz Owen**  
Senior Vice President  
Director HR  
Chief Risk Officer

**Ledale Reynolds**  
Senior Vice President  
Chief Information Officer

**Erdis Chaney**  
Vice President  
Senior Deposit Officer

**Jackie Hester**  
Vice President  
Marketing Officer

**Jean Fulton**  
Vice President  
Internal Auditor

**Darrel Bates**  
Vice President  
Collections Manager

**Mark Majure**  
Vice President  
Loan Review Officer

**Bob Posey**  
Vice President  
Loan Officer

**Stacy Arnold**  
Vice President  
Compliance Officer

**Joshua Sullivan**  
Vice President  
Senior Credit Analyst

**Ashley Peebles**  
Vice President  
Director of Deposit Services

**Phillip Branch**  
Vice President  
Comptroller

**Jamie Shotts**  
Vice President  
Appraisal Review Officer

**Sommer Vick**  
Assistant Vice President  
Accounting Officer  
Asst. Trust Officer

**Mitch Peden**  
Assistant Vice President  
Information Services Manager

**Pat Stokes**  
Assistant Vice President  
Operations Officer

**Scott Lewis**  
Assistant Vice President  
Information Security Officer

**Sam Mars**  
Assistant Vice President  
Loan Officer

**Shon Kirkland**  
Assistant Vice President  
Security Officer/Facilities  
Manager

**Charles Wilkerson**  
Assistant Vice President  
Loan Operations Officer

**Grant Comans**  
Assistant Vice President  
Branch Manager

**Sandra Curtis**  
Assistant Cashier  
Teller Administrator

**Temika Triplett**  
Assistant Cashier  
Electronic Services Officer

**Greg Jackson**  
Accounting Officer

**Reaghan Jenkins**  
Accounting Officer

**Deborah Ladd**  
Item Processing Officer

**Pam Garrett**  
Network Services Manager

**Westside Branch**

**Mike Chandler**  
Vice President  
Loan Officer

**Eastside Branch**

**Brad Copeland**  
Vice President  
Branch Manager

**Carthage Branch**

**Billy Cook**  
Vice President  
Loan Officer

**Tonya J. Dorman**

Deposit Operations Officer

**Sebastopol Branch**

**Connie Comans**  
President  
Branch Manager

**DeKalb & Scooba Branch**

**Reginald Moore**  
Assistant Vice President  
Branch Manager

**Jan White**

Branch Operations Officer

**Decatur Branch**

**Susan Brown**  
Deposit Operations Officer

**Kosciusko Branch**

**Teresa Patterson**  
Vice President  
Branch Manager

**Meridian Eastgate Branch**

**James V. Hines**  
Vice President  
Loan Officer

**Tammara Hopson**

Deposit Operations Officer

**Forest Branch**

**Lawanda McCaughn**  
Deposit Operations Officer

**Louisville, Industrial &  
Noxapater Branch**

**Bruce Lee**  
President & Lender

**Lynn Graham**

Assistant Vice President  
Branch Operations Officer

**Collinsville Branch**

**Mike Shelby**  
Vice President  
Branch Manager

**Starkville Branch**

**Rhonda Edmonson**  
Assistant Vice President  
Branch Manager

**Flowood Branch**

**Daniel Webb**  
Assistant Vice President  
Loan Officer

**Hattiesburg Branch**

**Chad Hill**  
Vice President  
Branch Manager

**Tammy McAlpin**

Commercial Loan  
Portfolio Manager

**Biloxi Cedar Lake Branch**

**Travis Moore**  
Vice President  
Regional Commercial Lender

**Brandon Sherwood**

Vice President  
Regional Commercial Lender

**Patrick Ricci**

Vice President  
Commercial Lender

**Katie Hancock**

Vice President  
Branch Manager

**Mandy Dawson**

Treasury Management Officer

**Pascagoula Branch**

**Greg Cronin**  
Gulf Coast President

**Pam Lindsey**

Vice President  
Senior Bank Officer

**Ford Kinsey**

Vice President  
Senior Credit Officer

**Tabbatha Calvert**

Vice President & BSA Officer

**Amber Thomas**

Vice President  
Commercial Lender

**Pam Pierce**

Human Resources Officer

**Julius Bosco**

Loan Compliance Officer

**Chandra McClendon**

Loan Operations Officer

**Theresa Jenkins**

Community Retail Officer

**Gulfport Branch**

**Reagan Bridley**  
Vice President  
Commercial Lender

**Ocean Springs Branch**

**Brad Grayson**  
Vice President  
Commercial Lender

**Sharon Wetzel**

Vice President  
Information Technology Officer

**Melissa Ceasar**

Community Retail Office

**Mortgage Loan  
Department**

**Tom Graham**  
Vice President  
Mortgage Loan Officer,  
Gulfport Branch

**David Blair**

Vice President  
Mortgage Loan Officer,  
Kosciusko Branch

**Charlene DeWeese**

Assistant Vice President  
Mortgage Loan Officer,  
Philadelphia Annex

**Tammy Warren**

Assistant Vice President  
Mortgage Loan Officer,  
Biloxi Cedar Lake Branch

**Oxford Loan Production Office**

**Marion Boyd**  
Vice President  
Regional Commercial Lender





## BANKING LOCATIONS

### Philadelphia Main Office

521 Main Street  
Philadelphia, MS 39350  
601.656.4692

### Westside Branch

912 West Beacon Street  
Philadelphia, MS 39350  
601.656.4978

### Northside Branch

802 Pecan Avenue  
Philadelphia, MS 39350  
601.656.4977

### Eastside Branch

599 East Main Street  
Philadelphia, MS 39350  
601.656.4976

### Union Branch

502 Bank Street  
Union, MS 39365  
601.774.9231

### Carthage Branch

301 West Main Street  
Carthage, MS 39051  
601.267.4525

### Sebastopol Branch

24 Pine Street  
Sebastopol, MS 39359  
601.625.7447

### Dekalb Branch

176 Main Avenue  
Dekalb, MS 39328  
601.743.2115

### Kosciusko Branch

775 North Jackson Street  
Kosciusko, MS 39090  
662.289.4356

### Scooba Branch

27597 Hwy 16 East  
Scooba, MS 39358  
662.476.8431

### Meridian Eastgate Branch

1825 Hwy 39 North  
Meridian, MS 39301  
601.693.8367

### Meridian Broadmoor Branch

5015 Hwy 493  
Meridian, MS 39305  
601.581.1541

### Decatur Branch

15330 Hwy 15 South  
Decatur, MS 39327  
601.635.2321

### Forest Branch

247 Woodland Drive North  
Forest, MS 39074  
601.469.3424

### Louisville Main

100 East Main Street  
Louisville, MS 39339  
662.773.6261

### Louisville Industrial Branch

803 South Church Street  
Louisville, MS 39339  
662.773.6261

### Noxapater Branch

45 East Main Street  
Noxapater, MS 39346  
662.724.4261

### Collinsville Branch

9065 Collinsville Road  
Collinsville, MS 39325  
601.626.7608

### Starkville Branch

201 Hwy 12 West  
Starkville, MS 39759  
662.323.1420





#### Flowood Branch

5419 Hwy 25 North, Suite Q  
Flowood, MS 39232  
601.992.7688

#### Hattiesburg Branch

6222 Highway 98  
Hattiesburg, MS 39402  
601.264.4425

#### Biloxi Cedar Lake Branch

1830 Popps Ferry RD  
Biloxi, MS 39532  
228.594.6913

#### Lemoyne Blvd. Branch

15309 Lemoyne Boulevard  
Biloxi, MS 39532  
228.207.2343

#### Oxford Loan Production Office

304 Enterprise Drive, Suite A  
Oxford, MS 38655  
662.550.4029

#### Ocean Springs Branch

2702 Bienville Boulevard  
Ocean Springs, MS 39564  
228.875.3933

#### Pascagoula Branch

1519 Jackson Avenue  
Pascagoula, MS 39567  
228.762.3330

#### Gulfport Branch

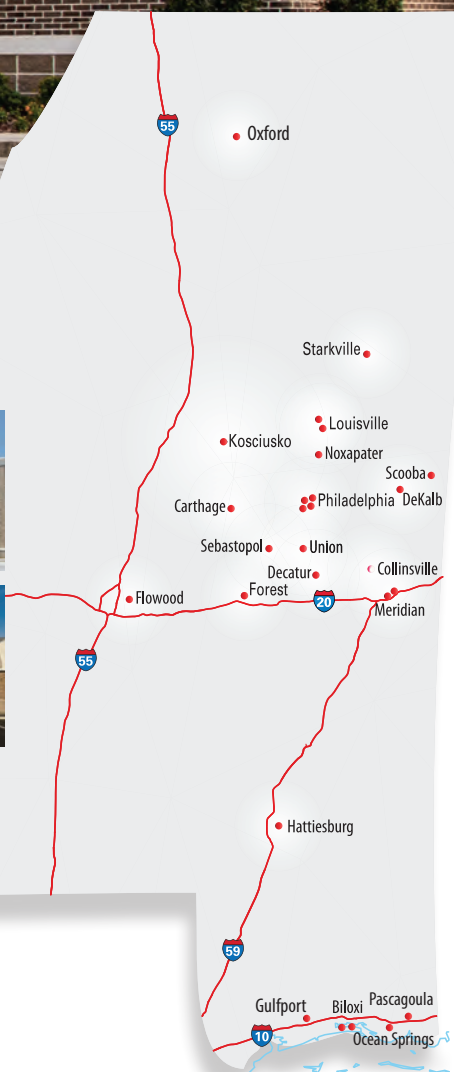
12008 Highway 49  
Gulfport, MS 39503  
228.831.3535

#### Phone Teller

800.397.0344

#### Internet Banking

[www.thecitizensbankphila.com](http://www.thecitizensbankphila.com)



**CITIZENS HOLDING COMPANY**

Philadelphia, Mississippi

Consolidated Financial Statements

As of December 31, 2019 and 2018 and for the  
Years Ended December 31, 2019, 2018 and 2017



## CONTENTS

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Report of Independent Registered Public Accounting Firm	1 – 3
Management’s Assessment of Internal Control over Financial Reporting	4 – 5

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Consolidated Financial Statements	
Consolidated Statements of Financial Condition	6
Consolidated Statements of Income	7
Consolidated Statements of Comprehensive Income (Loss)	8
Consolidated Statements of Changes in Shareholders’ Equity	9
Consolidated Statements of Cash Flows	10 – 11
Notes to Consolidated Financial Statements	12 – 72

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of Citizens Holding Company

### Opinion on Financial Statement

We have audited the accompanying consolidated statements of financial condition of Citizens Holding Company and subsidiary (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements (collectively, referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, are in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 13, 2020, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



We have served as the Company's auditor since 1998.

Memphis, Tennessee  
March 13, 2020



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of Citizens Holding Company

### Opinion on the Internal Control Over Financial Reporting

We have audited Citizens Holding Company and subsidiary's (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria for effective internal control over financial reporting described in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the consolidated statements of financial condition of Citizens Holding Company and subsidiary (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements and our report dated March 13, 2020 expressed an unqualified opinion.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

*HORNE LLP*

Memphis, Tennessee

March 13, 2020





The Citizens Bank<sup>SM</sup>

**[CITIZENS HOLDING COMPANY LETTERHEAD]**

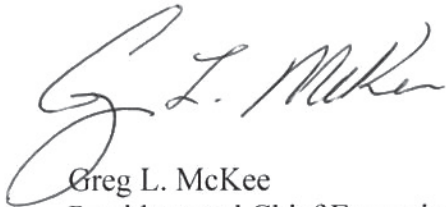
**Report on Management's Assessment of Internal Control over Financial Reporting**

Citizens Holding Company (the "Company") is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with accounting principles generally accepted in the United States and necessarily include some amounts that are based on management's best estimates and judgments.

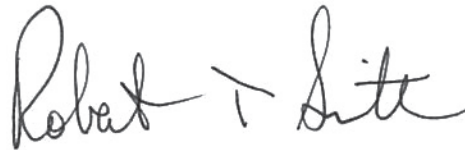
Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management, with the participation of the Company's principal executive officer and principal financial officer, conducted an assessment of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2019, based on criteria for effective internal control over financial reporting described in the "Internal Control – Integrated Framework," (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2019, the Company's system of internal control over financial reporting was effective. HORNE LLP, the Company's independent registered public accounting firm that has audited the Company's financial statements included in this annual report, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 which is included herein.



Greg L. McKee  
President and Chief Executive Officer



Robert T. Smith  
Treasurer and Chief Financial Officer

March 13, 2020

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Financial Condition  
December 31, 2019 and 2018  
(in thousands, except share data)

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Cash and due from banks	\$ 15,937	\$ 12,592
Interest bearing deposits with other banks	58,557	8,080
Federal funds sold	1,600	-
Securities available for sale, at fair value	464,383	444,746
Loans, net of allowance for loan losses of \$3,755 in 2019 and \$3,372 in 2018	573,312	425,905
Bank premises, furniture, fixtures and equipment, net	24,672	19,717
Other real estate owned, net	3,552	3,440
Accrued interest receivable	4,181	4,166
Cash surrender value of life insurance	25,088	25,384
Deferred tax assets	3,684	6,634
Other assets	20,468	7,966
	<hr/>	<hr/>
Total assets	\$ 1,195,434	\$ 958,630
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing deposits	\$ 190,406	\$ 170,030
Interest bearing deposits	708,590	586,192
	<hr/>	<hr/>
Total deposits	898,996	756,222
Securities sold under agreement to repurchase	170,410	107,965
Accrued interest payable	1,128	471
Deferred compensation payable	9,453	9,053
Other liabilities	2,647	1,053
	<hr/>	<hr/>
Total liabilities	1,082,634	874,764
	<hr/>	<hr/>
Shareholders' equity		
Common stock, \$.20 par value, authorized 22,500,000 shares; 5,578,131 shares issued and outstanding at December 31, 2019 and 4,904,530 shares issued and outstanding at December 31, 2018	1,116	981
Additional paid-in capital	17,883	4,298
Accumulated other comprehensive loss, net of tax benefit of (\$262) in 2019 and (\$4,978) in 2018	(789)	(14,975)
Retained earnings	94,590	93,562
	<hr/>	<hr/>
Total shareholders' equity	112,800	83,866
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 1,195,434	\$ 958,630
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.



**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Income  
Years Ended December 31, 2019, 2018, and 2017  
(in thousands, except share and per share data)

	2019	2018	2017
Interest income			
Interest and fees on loans	\$ 24,652	\$ 20,241	\$ 18,734
Interest on securities			
Taxable	7,993	8,345	8,179
Non-taxable	1,808	2,579	3,319
Other interest	908	193	273
Total interest income	35,361	31,358	30,505
Interest expense			
Deposits	7,719	2,811	1,922
Other borrowed funds	2,003	1,648	1,421
Total interest expense	9,722	4,459	3,343
Net interest income	25,639	26,899	27,162
(Provision for) reversal of loan losses	(573)	(334)	543
Net interest income after (provision for) reversal of loan losses	25,066	26,565	27,705
Non-interest income			
Service charges on deposit accounts	4,413	4,562	4,239
Other service charges and fees	3,129	2,879	2,638
Net gains on sales of securities	191	11	105
Other income	2,015	1,148	1,315
Total non-interest income	9,748	8,600	8,297
Non-interest expense			
Salaries and employee benefits	14,883	14,530	14,772
Occupancy expense	2,099	2,017	2,175
Equipment expense	3,146	3,713	3,210
Other expense	7,430	7,404	8,070
Total non-interest expense	27,558	27,664	28,227
Income before income taxes	7,256	7,501	7,775
Income tax expense	1,354	828	4,071
Net income	\$ 5,902	\$ 6,673	\$ 3,704
Net income per share – basic	\$ 1.17	\$ 1.36	\$ 0.76
Net income per share – diluted	\$ 1.17	\$ 1.36	\$ 0.76
Weighted average shares outstanding			
Basic	5,063,736	4,889,420	4,878,691
Diluted	5,066,103	4,899,218	4,895,848

The accompanying notes are an integral part of these statements.

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Comprehensive Income (Loss)  
Years Ended December 31, 2019, 2018, and 2017  
(in thousands)

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 5,902	\$ 6,673	\$ 3,704
Other comprehensive income (loss)			
Unrealized holding gains (losses) on available-for-sale securities	19,093	(8,982)	6,241
Income tax effect	(4,764)	2,240	(2,080)
Net unrealized gains (losses)	<u>14,329</u>	<u>(6,742)</u>	<u>4,161</u>
Reclassification adjustment for gains included in net income	(191)	(11)	(105)
Income tax effect	48	3	26
Net gains included in net income	<u>(143)</u>	<u>(8)</u>	<u>(79)</u>
Total other comprehensive income (loss)	<u>14,186</u>	<u>(6,750)</u>	<u>4,082</u>
Comprehensive income (loss)	<u>\$ 20,088</u>	<u>\$ (77)</u>	<u>\$ 7,786</u>

The accompanying notes are an integral part of these statements.

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Changes in Shareholders' Equity  
Years Ended December 31, 2019, 2018, and 2017  
(in thousands, except share data)

	<b>Number of Shares Issued</b>	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance, January 1, 2017	4,882,579	\$ 976	\$ 3,802	\$ (10,719)	\$ 91,000	\$ 85,059
Net income	-	-	-	-	3,704	3,704
Dividends paid (\$0.96 per share)	-	-	-	-	(4,697)	(4,697)
Options exercised	4,626	1	92	-	-	93
Restricted stock granted	7,500	2	(2)	-	-	-
Stock compensation expense	-	-	211	-	-	211
AOCI reclassification	-	-	-	(1,588)	1,588	-
Other comprehensive income, net	-	-	-	4,082	-	4,082
Balance, December 31, 2017	4,894,705	979	4,103	(8,225)	91,595	88,452
Net income	-	-	-	-	6,673	6,673
Dividends paid (\$0.96 per share)	-	-	-	-	(4,706)	(4,706)
Options exercised	2,325	-	27	-	-	27
Restricted stock granted	7,500	2	(2)	-	-	-
Stock compensation expense	-	-	170	-	-	170
Other comprehensive loss, net	-	-	-	(6,750)	-	(6,750)
Balance, December 31, 2018	4,904,530	981	4,298	(14,975)	93,562	83,866
Net income	-	-	-	-	5,902	5,902
Dividends paid (\$0.96 per share)	-	-	-	-	(4,874)	(4,874)
Common stock issued in connection with acquisition	666,101	133	13,424	-	-	13,557
Restricted stock granted	7,500	2	(2)	-	-	-
Stock compensation expense	-	-	163	-	-	163
Other comprehensive income, net	-	-	-	14,186	-	14,186
Balance, December 31, 2019	5,578,131	\$ 1,116	\$ 17,883	\$ (789)	\$ 94,590	\$ 112,800

The accompanying notes are an integral part of these statements.



**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2019, 2018, and 2017  
1 of 2  
(in thousands)

	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 5,902	\$ 6,673	\$ 3,704
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	912	937	1,003
Amortization of premiums and accretion of discounts on investment securities, net	5,294	3,283	3,317
Stock compensation expense	163	170	211
Provision for (reversal of) loan losses	573	334	(543)
Gain on sale of securities	(191)	(11)	(105)
Gain from death benefit proceeds on BOLI	(371)	-	-
Net gain on sale of other real estate owned	(311)	-	-
Deferred income tax expense	459	973	3,885
Net writedown on other real estate owned	-	-	414
Decrease in accrued interest receivable	382	285	269
Increase in cash surrender value life insurance	(709)	(771)	(722)
Increase (decrease) in accrued interest payable	166	273	(1)
Increase in deferred compensation liability	400	432	411
Net change in other operating assets and liabilities	(722)	(407)	(1,224)
Net cash provided by operating activities	11,947	12,171	10,619
Cash flows from investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	59,189	40,964	42,390
Proceeds from sales of securities available-for-sale	122,171	17,620	114,061
Purchases of investment securities available-for-sale	(160,591)	(10,550)	(162,449)
Increase in federal funds sold	(1,600)	-	-
Death benefit proceeds from bank-owned life insurance	1,549	-	-
Purchases of bank premises, furniture, fixtures and equipment	(1,042)	(346)	(2,911)
Proceeds from sales of bank premises, furniture, fixtures and equipment	-	264	-
Proceeds from sale of other real estate owned	584	812	138
Net (increase) decrease in interest bearing deposits with other banks	(48,927)	(6,547)	47,071
Net cash paid in acquisition of business	(317)	-	-

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2019, 2018, and 2017  
2 of 2  
(in thousands)

	2019	2018	2017
Purchases of Federal Home Loan Bank Stock	-	(476)	(499)
Net increase in loans	(44,678)	(24,108)	(11,788)
Net cash (used by) provided by investing activities	(73,662)	17,633	26,013
Cash flows from financing activities			
Net increase (decrease) in deposits	\$ 16,459	\$ 35,536	\$ (39,469)
Net (decrease) increase in federal funds purchased	-	(1,500)	1,500
Net increase (decrease) in securities sold under agreement to repurchase	62,444	(34,532)	(7,785)
Proceeds from exercise of stock options	-	27	93
Dividends paid to shareholders	(4,874)	(4,706)	(4,697)
Net (decrease) increase in Federal Home Loan Bank advances	(8,969)	(30,000)	10,000
Net cash provided by (used in) financing activities	65,060	(35,175)	(40,358)
Net increase (decrease) in cash and due from banks	3,345	(5,371)	(3,726)
Cash and due from banks, beginning of year	12,592	17,963	21,689
Cash and due from banks, end of year	\$ 15,937	\$ 12,592	\$ 17,963
Supplemental disclosures of cash flow information			
Cash paid for Interest	\$ 9,065	\$ 4,186	\$ 3,344
Income taxes	\$ 685	\$ 410	\$ 1,782
Noncash disclosures			
Issuance of common stock for acquisition of business	\$ 13,557	\$ -	\$ -
Real estate acquired by foreclosure	\$ 385	\$ 260	\$ 89

The accompanying notes are an integral part of these financial statements.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Summary of Significant Accounting Policies**

*(in thousands, except share and per share data)*

Nature of Business

Citizens Holding Company (referred to herein as the “Company”) owns and operates The Citizens Bank of Philadelphia (the “Bank”). In addition to full service commercial banking, the Bank offers title insurance services through its subsidiary, Title Services LLC. As a state bank, the Bank is subject to regulations of the Mississippi Department of Banking and Consumer Finance and the Federal Deposit Insurance Company. The Company is also subject to the regulations of the Federal Reserve. The area served by the Bank is east central, several southern and northern counties of Mississippi and the surrounding areas. Services are provided at multiple branch offices.

Basis of Financial Statement Presentation

The accounting policies of the Company and its subsidiary conform to generally accepted accounting principles (“GAAP”) in the United States of America and to general practices within the banking industry. The consolidated financial statements of the Company include the accounts of the Bank and its subsidiary (collectively, the “Company”). All significant intercompany transactions have been eliminated in consolidation.

Estimates

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

Estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and valuation of foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and to value foreclosed real estate, future additions to the allowance or adjustments to the valuation may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses and valuations of foreclosed real estate. Such agencies may require the Company to recognize additions to the allowance or to make adjustments to the valuation based on their judgments about information available to them at the time of their examination. Due to these



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

factors, it is reasonably possible that the allowance for loan losses and valuation of foreclosed real estate may change materially in the near term.

Cash, Due from Banks and Interest Bearing Deposits with Other Banks

For the purpose of reporting cash flows, cash and due from banks includes cash on hand and demand deposits. Cash flows from loans originated by the Company, deposits, and federal funds purchased and sold are reported net in the statement of cash flows. The Company is required to maintain average reserve balances with the Federal Reserve Bank based on a percentage of deposits.

Interest-bearing deposits with other banks mature within one year and are carried at cost.

Investment Securities

In accordance with the investments topic of the Accounting Standards Codification (“ASC”), securities are classified as “available-for-sale,” “held-to-maturity” or “trading”. Fair values for securities are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Gains or losses on the sale of securities are determined using the specific identification method. Currently, the Company has no trading securities.

Securities Available-for-Sale

Securities that are held for indefinite periods of time or used as part of the Company’s asset/liability management strategy and that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital and other similar factors are classified as available-for-sale (“AFS”). Securities available-for-sale are reported at fair value, with unrealized gains and losses reported, net of related income tax effect, as a separate component of shareholders’ equity.

Securities Held to Maturity

Securities that are held-to-maturity (“HTM”) are those securities that the Company has the positive intent and ability to hold until maturity. These securities cannot be sold in response to the risk factors discussed above for available for sale securities. These securities are reported at book value. As of December 31, 2019 and 2018, there were no securities classified as HTM.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. The amortization of premiums and accretion of discounts are recognized in interest income.

The Company periodically reviews its securities for impairment based upon a number of factors, including but not limited to, length of time and extent to which the fair value has been less than cost, the likelihood of the security's ability to recover any decline in its fair value, financial condition of the underlying issuer, ability of the issuer to meet contractual obligations and ability to retain the security for a period of time sufficient to allow for recovery in fair value. Impairments on securities are recognized when management, based on its analysis, deems the impairment to be other-than-temporary. Disclosures about unrealized losses in the Company's securities portfolio that have not been recognized as other-than-temporary impairments are provided in Note 3.

Loans and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of unearned income and an allowance for loan losses. The Company has no loans held-for-sale.

Unearned income includes deferred fees net of deferred direct incremental loan origination cost. Unearned income attributable to loans held with a maturity of more than one year is recognized as income or expense over the life of the loan.

Unearned discounts on installment loans are recognized as income over the terms of the loans by a method that approximates the interest method. Unearned income and interest on commercial loans are recognized based on the principal amount outstanding. For all other loans, interest is accrued daily on the outstanding balances. For impaired loans, interest is discontinued on a loan when management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. The Company generally discontinues the accrual of interest income when a loan becomes 90 days past due as to principal or interest; however, management may elect to continue the accrual when the estimated net realizable value of collateral is sufficient to cover the principal balance and the accrued interest. Interest income on other nonaccrual loans is recognized only to the extent of interest payments. Upon discontinuance of the accrual of interest on a loan, any previously accrued but unpaid interest is reversed against interest income.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 1. Continued**

A loan is impaired when management determines that it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Troubled debt restructurings ("TDR") are those for which concessions have been granted to the borrower due to a deterioration of the borrower's financial condition. Such concessions may include reduction in interest rates or deferral of interest or principal payments. In evaluating whether to restructure a loan, management analyzes the long-term financial condition of the borrower, including guarantor and collateral support, to determine whether the proposed concessions will increase the likelihood of repayment of principal and interest. TDR are classified as performing, unless they are on nonaccrual status of 90 days or more delinquent, in which case they are considered nonperforming.

The allowance for loan losses is established through a provision for loan losses charged against net income. Loans determined to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance represents an amount, which, in management's judgment, will be adequate to absorb estimated probable losses on existing loans that may become uncollectible. In order to determine an adequate level of allowance, management utilizes a model that calculates the allowance for loan loss by applying an average historical charge-off percentage by loan segment and over a 20 quarter period of time with the most current quarters weighted to show the effect of the most recent chargeoff activity to the current loan balances in the corresponding loan segment. Additionally, for loan balances over \$100, specific reserves on an individual loan basis may be applied in addition to the allowance calculated using the model. This specific reserve is determined by an extensive review of the borrower's credit history, capacity to pay, adequacy of collateral and general economic conditions related to the respective loan. This specific reserve will stay in place until such time that the borrower's obligation is satisfied or the loan is greatly improved.

Large groups of small-balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 1. Continued**

#### **Business Combinations, Accounting for Credit-Deteriorated Purchased Loans and Related Assets**

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, “Business Combinations.” Under the acquisition method, identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values as of that date and are recognized separately from goodwill. Results of operations of the acquired entities are included in the Consolidated Statements of Income from the date of acquisition. Acquisition costs incurred by the Company are expensed as incurred.

Loans purchased in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit-impaired. Purchased credit deteriorated loans are accounted for in accordance with ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”), and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Increases in expected cash flows to be collected on these loans are recognized as an adjustment of the loan’s yield over its remaining life, while decreases in expected cash flows are recognized as an impairment.

#### **Bank Premises, Furniture, Fixtures and Equipment**

The Company’s premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation computed by straight-line methods over the estimated useful lives of the assets, which range from three to forty years. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

#### **Other Real Estate Owned**

Other real estate owned (“OREO”) consists of properties repossessed by the Company on foreclosed loans. These assets are stated at fair value at the date acquired less estimated costs to sell. Losses arising from the acquisition of such property are charged against the allowance for loan losses. Declines in value resulting from subsequent revaluation of the property or losses resulting from disposition of such property are expensed as incurred. Revenue and expenses from operations of other real estate owned are reflected as other income (expense).

#### **Cash Surrender Value of Life Insurance**

The Company has purchased life insurance contracts on certain employees and directors. Certain of such policies were acquired to fund deferred compensation arrangements with employees and directors. The cash surrender value of the Company owned policies is carried at the actual cash surrender value of the policy at the balance sheet date. Changes in the value of the policies are classified in non-interest income.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Intangible Assets

Intangible assets include core deposits purchased and goodwill. Core deposit intangibles are amortized on a straight-line basis over their estimated economic lives ranging from 5 to 10 years. Goodwill and other intangible assets with indefinite lives are not amortized but are tested at least annually for impairment. Fair values are determined based on market valuation multiples for the Company and comparable businesses based on the assets and cash flow of the Bank, the Company's only reportable segment. If impairment has occurred, the goodwill or other intangible asset is reduced to its estimated fair value through a charge to expense.

Trust Assets

Assets held by the trust department of the Company in its fiduciary or agency capacities are not assets of the Company and are not included in the consolidated financial statements.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and the changes in deferred tax assets and liabilities, excluding components of other comprehensive income. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net earnings reported in the consolidated statements of income and changes in unrealized gain (loss) on securities available-for-sale reported as a component of shareholders' equity. Unrealized gain (loss) on securities available-for-sale, net of related income taxes, was the only component of accumulated other comprehensive income for the Company.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Net Income Per Share

Net income per share-basic is computed by dividing net income by the weighted average number of common shares outstanding during the year. Net income per share-diluted is based on the weighted average number of shares of common stock outstanding for the periods, including the dilutive effect of the Company's outstanding stock options and restricted stock grants. The effect of the dilutive shares for the years 2019, 2018 and 2017 is illustrated in the following table.

	2019	2018	2017
Basic weighted average shares outstanding	5,063,736	4,889,420	4,878,691
Dilutive effect of stock options	2,367	9,798	17,157
Dilutive weighted average shares outstanding	5,066,103	4,899,218	4,895,848
Net income	\$ 5,902	\$ 6,673	\$ 3,704
Net income per share-basic	\$ 1.17	\$ 1.36	\$ 0.76
Net income per share-diluted	\$ 1.17	\$ 1.36	\$ 0.76

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$550, \$640 and \$650 for the years ended December 31, 2019, 2018 and 2017, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold. Securities, generally United States Government, federal agency and state county municipal securities, pledged as collateral under these financing arrangements cannot be sold or re-pledged by the secured party.

Reclassifications

Certain information for 2017 and 2018 has been reclassified to conform to the financial presentation for 2019. Such reclassifications had no effect on net income or shareholders' equity.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Stock-Based Compensation

At December 31, 2019, the Company had outstanding grants under two stock-based compensation plans, which are the 1999 Directors' Stock Compensation Plan and the 2013 Incentive Compensation Plan. Compensation expense for option grants and restricted stock awards is determined based on the estimated fair value of the stock options and restricted stock on the applicable grant or award date. The Company has elected to account for forfeitures in compensation cost when they occur as permitted under the guidance in ASC 718, "Compensation - Stock Compensation" ("ASC 718"). Expense associated with the Company's stock-based compensation is included under the line item "Salaries and benefits" on the Consolidated Statements of Income. The Company recognizes compensation expense for all share-based payments to employees in accordance with ASC 718, "Compensation - Stock Compensation." See Note 19 for further details regarding the Company's stock-based compensation.

Subsequent Events

The Company has evaluated, for consideration of recognition or disclosure, subsequent events that have occurred through the date of issuance of its financial statements, and has determined that no significant events occurred after December 31, 2019 but prior to the issuance of these financial statements that would have a material impact on its Consolidated Financial Statements.

Adoption of New Accounting Standards

ASU 2016-02 "Leases" (Topic 842)" ("ASU 2016-02") requires lessees and lessors recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was effective for the Company on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption with the option to elect certain practical expedients. The Company has elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and have not restated comparative periods. Of the optional practical expedients available under ASU 2016-02, all that apply have been adopted.

The Company's operating leases relate primarily to branch properties and related equipment. As a result of implementing ASU 2016-02, we recognized an operating lease right-of-use ("ROU") asset of \$1,009 and an operating lease liability of \$1,009 on January 1, 2019, with no impact on our consolidated statements of income or condensed consolidated statement of cash flows compared to the prior lease accounting model. The ROU asset and liability are recorded in other assets and other liabilities, respectively, in the consolidated statements of financial condition. See Note 8. Premises and Equipment for additional information.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 1. Continued**

#### Newly Issued, But Not Yet Effective Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *“Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”* (“ASU 2016-13”). ASU 2016-13 makes significant changes to the accounting for credit losses on financial instruments and disclosures about them. The new current expected credit loss (CECL) impairment model will require an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics, determining the contractual terms of said financial assets and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 were originally effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. However, in October 2019, the FASB approved deferral of the effective date for ASU 2016-13 for certain companies. The new effective date for the Company is January 1, 2023. ASU 2016-13 permits the use of estimation techniques that are practical and relevant to the Company’s circumstances, as long as they are applied consistently over time and faithfully estimate expected credit losses in accordance with the standard. The ASU lists several common credit loss methods that are acceptable such as a discounted cash flow method, loss-rate method and probability of default/loss given default (PD/LGD) method. Depending on the nature of each identified pool of financial assets with similar risk characteristics, the Company currently plans on implementing a PD/LGD method or a loss-rate method to estimate expected credit losses. The Company expects ASU 2016-13 to have a significant impact on the Company’s accounting policies, internal controls over financial reporting and footnote disclosures. The Company has assessed its data and system needs and has begun designing its financial models to estimate expected credit losses in accordance with the standard. Further development, testing and evaluation of said models is required to determine the impact that adoption of this standard will have on the financial condition and results of operations of the Company.

ASU 2018-13 *“Fair Value Measurement (Topic 820) – Changes in the Disclosure Requirements for Fair Value Measurement”* (“ASU 2018-13”) removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 fair value measurement methodologies, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. It also adds a requirement to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. For certain unobservable inputs, entities may disclose other quantitative information in lieu of the weighted average if the other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

2018-13 is effective for annual and interim periods beginning after December 15, 2019. Management is currently evaluating the impact this ASU will have on the Company's financial statements.

In January 2017, FASB issued ASU 2017-04, "*Intangibles - Goodwill and Other (Topic 350)*" ("ASU 2017-04"). ASU 2017-04 amends and simplifies current goodwill impairment testing by eliminating certain testing under the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 becomes effective for the company for periods beginning after December 15, 2022. Management is currently evaluating the impact this ASU will have on the Company's financial statements.

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* to simplify various aspects of the current guidance to promote consistent application of the standard among reporting entities by moving certain exceptions to the general principles. The amendments are effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact this ASU will have on the Company's financial statements.

**Note 2. Business Combinations**

*(dollar amounts in thousands, except share and per share data)*

*Acquisition of Charter Bank*

Effective October 1, 2019, the Company completed its acquisition of Charter Bank ("Charter") in a transaction valued at approximately \$19,668. The Company issued 666,101 shares of common stock and paid approximately \$6,110 to Charter stockholders for 100% voting equity interest in Charter. On October 1, 2019, Charter operated 4 banking locations on the Mississippi Gulf Coast.

The Company recorded approximately \$10,719 in intangible assets which consist of goodwill of \$9,953 and a core deposit intangible of \$766. Goodwill resulted from a combination of revenue enhancements from expansion in existing markets and efficiencies resulting from operational synergies. The fair value of the core deposit intangible is being amortized on a straight-line basis over the estimated useful life, currently expected to be 7 years.

The Company recorded approximately \$558 in expenses related to the merger in 2019. Merger expenses were expensed as incurred and are included in other expense in the consolidated statements of income.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 2. Continued**

The following table summarizes the allocation of purchase price to assets and liabilities acquired in connection with the Company's acquisition of Charter based on their fair values on October 1, 2019.

**Purchase Price:**

Shares issued to common shareholders	666,101	
Purchase price per share	\$ 20.35	
Value of stock paid		\$ 13,555
Cash consideration paid		6,110
Cash paid for fractional shares		3
<b>Total Purchase Price</b>		<b>\$ 19,668</b>

**Net Assets Acquired:**

Stockholders' equity at transaction date	\$ 11,383	
Increase (decrease) to net assets as a result of fair value adjustments to assets acquired and liabilities assumed:		
Securities	(237)	
Loans, including loans held for sale	(347)	
Premises and equipment	(1,252)	
Intangible assets	575	
Other assets	(272)	
Deposits	(135)	
<b>Total Net Assets Acquired</b>		<b>9,715</b>
<b>Goodwill resulting from merger</b>		<b>\$ 9,953</b>

The following table summarizes the fair value on October 1, 2019 of assets acquired and liabilities assumed at acquisition date in connection with the merger with Charter.

Cash and cash equivalents	\$ 7,343
Investment securities available for sale	26,607
Loans	103,665
Premises and equipment	4,813
Intangible assets	10,719
Other assets	3,957
<b>Total assets</b>	<b>157,104</b>
Deposits	126,316
Borrowings	8,969
Other liabilities	2,151
<b>Total liabilities</b>	<b>\$ 137,436</b>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 2. Continued**

*Supplemental Pro Forma Consolidated Condensed Results of Operations*

The following unaudited pro forma consolidated condensed consolidated financial information presents the results of operations for the twelve months ended December 31, 2019 and 2018 of the Company as though the Charter merger had been completed as of January 1, 2018. The unaudited estimated pro forma information combines the historical results of Charter with the Company's historical consolidated results and includes adjustments reflecting the estimated impact of certain fair value adjustments for the periods presented. The pro forma information is not necessarily indicative of what would have occurred had the acquisitions taken place on January 1, 2018. The pro forma information does not include the effect of any cost-saving or revenue-enhancing strategies. Merger expenses are reflected in the period in which they were incurred.

	(Unaudited) Year Ended December 31,	
	2019	2018
Net interest income - pro forma	\$ 29,237	\$ 32,206
Noninterest income - pro forma	\$ 10,090	\$ 9,014
Noninterest expense - pro forma	\$ 35,075	\$ 32,714
Net income - pro forma	\$ 2,692	\$ 6,982
Earnings per share - pro forma		
Basic	\$ 0.53	\$ 1.43
Diluted	\$ 0.53	\$ 1.43

For the three months ended December 31, 2019, Charter, the acquiree, had net interest income of \$1,021, non-interest income of \$720 and income before income taxes of \$1,362 included in the consolidated statements of income for the year ended December 31, 2019.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3. Investment Securities**

*(in thousands)*

The amortized cost and estimated fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income at December 31, 2019 and 2018 were as follows:

<b>2019</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Securities available-for-sale				
Obligations of U.S.				
Government agencies	\$ 97,400	\$ -	\$ 289	\$ 97,111
Mortgage-backed securities	308,310	640	2,050	306,900
State, County, Municipals	59,724	708	60	60,372
Total	<u>\$ 465,434</u>	<u>\$ 1,348</u>	<u>\$ 2,399</u>	<u>\$ 464,383</u>

<b>2018</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
Securities available-for-sale				
Obligations of U.S.				
Government agencies	\$ 99,366	\$ -	\$ 3,388	\$ 95,978
Mortgage-backed securities	259,742	5	12,373	247,374
State, County, Municipals	105,591	67	4,264	101,394
Total	<u>\$ 464,699</u>	<u>\$ 72</u>	<u>\$ 20,025</u>	<u>\$ 444,746</u>



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3. Continued**

The following tables show the gross unrealized losses and fair value of the Company's investments classified as AFS investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018.

A summary of unrealized loss information for AFS securities, categorized by security type follows:

December 31, 2019		Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized	
		Losses		Losses		Losses	
Obligations of U.S.							
Government agencies	\$ 76,682	217	\$ 20,429	72	\$ 97,111	289	
Mortgage backed securities	101,730	871	76,630	1,179	178,360	2,050	
State, County, Municipal	8,280	37	3,731	23	12,011	60	
Total	\$ 186,692	1,125	\$ 100,790	1,274	\$ 287,482	2,399	

December 31, 2018		Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized	
		Losses		Losses		Losses	
Obligations of U.S.							
Government agencies	\$ -	-	\$ 95,978	3,388	\$ 95,978	3,388	
Mortgage backed securities	12,258	179	234,929	12,194	247,187	12,373	
State, County, Municipal	12,624	285	76,536	3,979	89,160	4,264	
Total	\$ 24,882	464	\$ 407,443	19,561	\$ 432,325	20,025	

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3. Continued**

The Company's unrealized losses on its Obligations of United States Government agencies, Mortgage backed securities and State, County and Municipal bonds are the result of an upward trend in interest rates, mainly in the mid-term sector. The Company does not intend to sell any of the securities in an unrealized loss position, and it is not more likely than not that the Company will be required to sell any such security prior to the recovery of its amortized cost basis, which may be at maturity. Furthermore, even though a number of these securities have been in a continuous unrealized loss position for a period greater than twelve months, the Company is collecting principal and interest from the respective issuers as scheduled. None of the unrealized losses disclosed in the previous table are related to credit deterioration. As such, the Company did not record any other-than-temporary impairment for the years ended December 31, 2019 or 2018.

The amortized cost and estimated fair value of securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Securities AFS		
Due in one year or less	\$ 345	\$ 345
Due after one year through five years	89,920	89,681
Due after five years through ten years	18,678	18,808
Due after ten years	48,181	48,649
Residential mortgage backed securities	259,309	258,415
Commercial mortgage backed securities	49,001	48,485
	<hr/>	<hr/>
Total	\$ 465,434	\$ 464,383

Investment securities with fair values of \$413,275 and \$357,231 at December 31, 2019 and December 31, 2018, respectively, were pledged as collateral for public deposits and securities sold under agreement to repurchase.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3. Continued**

Gross realized gains and losses are included in net gains on sales of securities. Total gross realized gains and gross realized losses from the sale of investment securities for each of the years ended December 31 were:

	<b>2019</b>		<b>2018</b>		<b>2017</b>
Gross realized gains	\$ 414	\$	171	\$	633
Gross realized losses	223		160		528
Net realized gains	\$ 191	\$	11	\$	105

**Note 4. Federal Home Loan Bank Stock**

*(in thousands)*

The Company, as a member of the Federal Home Loan Bank of Dallas (“FHLB”) system, owns stock in the organization. No ready market exists for the stock, and it has no quoted market value. The Company’s investment in the FHLB is carried at cost of \$3,083 and \$2,253 at December 31, 2019 and December 31, 2018, respectively, and is included in other assets. The Company purchased stock in 2019 and 2018 at the par value of \$100 per share.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Non Purchased Loans**

*(In Thousands, Except Number of Loans)*

“Purchased” loans are those acquired in any of the Company’s previous acquisitions. “Non purchased” loans include all of the Company’s other loans. For purposes of this Note 5, all references to “loans” mean non purchased loans.

The composition of loans, net at December 31, 2019 and 2018 is as follows:

	2019	2018
Real Estate:		
Land Development and Construction	\$ 66,428	\$ 41,134
Farmland	15,595	14,498
1-4 Family Mortgages	87,631	88,747
Commercial Real Estate	207,604	203,595
Total Real Estate Loans	377,258	347,974
Business Loans:		
Commercial and Industrial Loans	84,611	66,421
Farm Production and Other Farm Loans	683	907
Total Business Loans	85,294	67,328
Consumer Loans:		
Credit Cards	1,833	1,648
Other Consumer Loans	12,060	12,372
Total Consumer Loans	13,893	14,020
Total Gross Loans	476,445	429,322
Unearned Income	(8)	(45)
Allowance for Loan Losses	(3,755)	(3,372)
Loans, net	\$ 472,682	\$ 425,905

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews these policies and procedures and submits them to the Company’s Board of Directors for its approval when needed, but no less frequently than annually. A reporting system supplements the review process by

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Continued**

providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of this review are presented to management with quarterly reports made to the board of directors. The loan review process complements and reinforces the risk identification and assessment decisions made by the lenders and credit personnel, as well as the Company's policies and procedures.

Loans are made principally to customers in the Company's market. The Company's lending policy provides that loans collateralized by real estate are normally made with loan-to-value ("LTV") ratios of 80 percent or less. Commercial loans are typically collateralized by property, equipment, inventories or receivables with LTV ratios from 50 percent to 80 percent. Real estate mortgage loans are collateralized by personal residences with LTV ratios of 80 percent or less. Consumer loans are typically collateralized by real estate, vehicles and other consumer durable goods. Approximately \$77,700 and \$67,500 of the loans outstanding at December 31, 2019 and 2018, respectively, were variable rate loans.

In the ordinary course of business, the Company has granted loans to certain directors, significant shareholders and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans during 2019 is presented in the following table.

Balance outstanding at December 31, 2018	\$ 2,941
Principal additions	190
Principal reductions	<u>(2,744)</u>
Balance outstanding at December 31, 2019	<u>\$ 387</u>

Loans are considered to be past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status, when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether such loans are considered past due. When interest accruals are discontinued, all unpaid accrued interest is reversed. Interest income is subsequently

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Continued**

recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Year-end non-accrual loans, segregated by class of loans, were as follows:

	2019	2018
Real Estate:		
Land Development and Construction	\$ 111	\$ -
Farmland	232	200
1-4 Family Mortgages	2,160	1,831
Commercial Real Estate	9,082	7,612
Total Real Estate Loans	11,585	9,643
Business Loans:		
Commercial and Industrial Loans	338	76
Farm Production and Other Farm Loans	10	31
Total Business Loans	348	107
Consumer Loans:		
Other Consumer Loans	60	89
Total Consumer Loans	60	89
Total non-accrual Loans	\$ 11,993	\$ 9,839

In the event that non-accrual loans had performed in accordance with their original terms, the Company would have recognized additional interest income of approximately \$555, \$429 and \$413 in 2019, 2018 and 2017, respectively.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2019 is as follows:

	Loans			Accruing Loans		
	Loans 30-89 Days Past Due	90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 736	\$ -	\$ 736	\$ 65,692	\$ 66,428	\$ -
Farmland	171	39	210	15,385	15,595	39
1-4 Family Mortgages	3,116	777	3,893	83,738	87,631	147
Commercial Real Estate	8,511	2,080	10,591	197,013	207,604	18
Total Real Estate Loans	12,534	2,896	15,430	361,828	377,258	204
Business Loans:						
Commercial and Industrial Loans	586	312	898	83,713	84,611	52
Farm Production and Other Farm Loans	17	-	17	666	683	-
Total Business Loans	603	312	915	84,379	85,294	52
Consumer Loans:						
Credit Cards	45	18	63	1,770	1,833	18
Other Consumer Loans	172	42	214	11,846	12,060	-
Total Consumer Loans	217	60	277	13,616	13,893	18
Total Loans	\$ 13,354	\$ 3,268	\$ 16,622	\$ 459,823	\$ 476,445	\$ 274

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2018 is as follows:

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 1,494	\$ 54	\$ 1,548	\$ 39,586	\$ 41,134	\$ 54
Farmland	779	29	808	13,690	14,498	-
1-4 Family Mortgages	3,456	330	3,786	84,961	88,747	-
Commercial Real Estate	1,059	2,981	4,040	199,555	203,595	-
Total Real Estate Loans	6,788	3,394	10,182	337,792	347,974	54
Business Loans:						
Commercial and Industrial Loans	1,672	21	1,693	64,728	66,421	-
Farm Production and Other Farm Loans	9	-	9	898	907	-
Total Business Loans	1,681	21	1,702	65,626	67,328	-
Consumer Loans:						
Credit Cards	16	4	20	1,628	1,648	4
Other Consumer Loans	212	33	245	12,127	12,372	15
Total Consumer Loans	228	37	265	13,755	14,020	19
Total Loans	\$ 8,697	\$ 3,452	\$ 12,149	\$ 417,173	\$ 429,322	\$ 73

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all the amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. In determining which loans to evaluate for impairment, management looks at past due loans, bankruptcy filings and any situation that might lend itself to cause a borrower to be unable to repay the loan according to the original contract terms on those loans in excess of \$100. If a loan is determined to be impaired and the collateral is deemed to be insufficient to fully repay the loan, a specific reserve will be established. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

Impaired loans as of December 31, by class of loans, are as follows:

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
2019						
Real Estate:						
Land Development and Construction	\$ 111	\$ 58	\$ 53	\$ 111	\$ 16	\$ 56
Farmland	252	252	-	252	-	261
1-4 Family Mortgages	839	740	99	839	28	996
Commercial Real Estate	11,506	5,949	3,840	9,789	566	9,337
Total Real Estate Loans	12,708	6,999	3,992	10,991	610	10,649
Business:						
Commercial and Industrial	144	-	144	144	72	72
Total Business Loans	144	-	144	144	72	72
Total Loans	\$ 12,852	\$ 6,999	\$ 4,136	\$ 11,135	\$ 682	\$ 10,721

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Continued**

		Unpaid	Recorded	Recorded	Total		Average
		Principal	Investment	Investment	Recorded	Related	Recorded
		Balance	With No	With	Investment	Allowance	Investment
	2018		Allowance	Allowance			
<hr/>							
Real Estate:							
Land Development and Construction		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland		269	269	-	269	-	135
1-4 Family Mortgages		1,153	1,062	91	1,153	27	728
Commercial Real Estate		10,601	5,209	3,675	8,884	374	6,489
Total Real Estate Loans		12,023	6,540	3,766	10,306	401	7,352
<hr/>							
Total Loans		\$ 12,023	\$ 6,540	\$ 3,766	\$ 10,306	\$ 401	\$ 7,352
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**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

The following table presents troubled debt restructurings segregated by class:

		Pre-Modification	Post-Modification
		Outstanding	Outstanding
	Number of	Recorded	Recorded
	Loans	Investment	Investment
December 31, 2019			
Commercial real estate	3	\$ 4,871	\$ 2,495
Total	3	\$ 4,871	\$ 2,495

		Pre-Modification	Post-Modification
		Outstanding	Outstanding
	Number of	Recorded	Recorded
	Loans	Investment	Investment
December 31, 2018			
Commercial real estate	3	\$ 4,871	\$ 2,782
Total	3	\$ 4,871	\$ 2,782

Changes in the Company's troubled debt restructurings are set forth in the table below:

	Number of Loans	Recorded Investment
Total at January 1, 2017	3	\$ 3,288
Reductions due to:		
Principal paydowns		(241)
Total at January 1, 2018	3	3,047
Reductions due to:		
Principal paydowns		(265)
Total at January 1, 2019	3	2,782
Reductions due to:		
Principal paydowns		(287)
Total at December 31, 2019	3	\$ 2,495

The allocated allowance for loan losses attributable to restructured loans was \$-0- and \$174 at December 31, 2019 and 2018, respectively.

The Company had no commitments to lend additional funds on these troubled debt restructurings at December 31, 2019.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 5. Continued**

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans when originated and is updated as factors related to the strength of the loan changes. Loans are graded on a scale of 1 to 9. A description of the general characteristics of the 9 risk grades is as follows.

Grade 1. MINIMAL RISK - These loans are without loss exposure to the Company. This classification is reserved for only the best, well secured loans to borrowers with significant capital strength, low leverage, stable earnings and growth and other readily available financing alternatives. This type of loan would also include loans secured by a program of the government.

Grade 2. MODEST RISK - These loans include borrowers with solid credit quality and moderate risk of loss. These loans may be fully secured by certificates of deposit with another reputable financial institution, or secured by readily marketable securities with acceptable margins.

Grade 3. AVERAGE RISK - This is the rating assigned to most of the loans held by the Company. This includes loans with average loss exposure and average overall quality. These loans should liquidate through possessing adequate collateral and adequate earnings of the borrower. In addition, these loans are properly documented and are in accordance with all aspects of the current loan policy.

Grade 4. ACCEPTABLE RISK - Borrower generates sufficient cash flow to fund debt service but most working asset and capital expansion needs are provided from external sources. Profitability and key balance sheet ratios are usually close to peers but one or more may be higher than peers.

Grade 5. MANAGEMENT ATTENTION - Borrower has significant weaknesses resulting from performance trends or management concerns. The financial condition of the borrower has taken a negative turn and may be temporarily strained. Cash flow is weak but cash reserves remain adequate to meet debt service. Management weakness is evident.

Grade 6. OTHER LOANS ESPECIALLY MENTIONED ("OLEM") - Loans in this category are fundamentally sound but possess some weaknesses. OLEM loans have potential weaknesses, which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. These loans have an identifiable weakness in credit, collateral, or repayment ability but there is no expectation of loss.

Grade 7. SUBSTANDARD ASSETS - Assets classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness based upon objective evidence. Assets classified as substandard are characterized by the distinct possibility that the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Continued**

insured institution will sustain some loss if the deficiencies are not corrected. The possibility that liquidation would not be timely requires a substandard classification even if there is little likelihood of total loss.

Grade 8. DOUBTFUL - A loan classified as doubtful has all the weaknesses of a substandard classification and the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. A doubtful classification could reflect the fact that the primary source of repayment is gone and serious doubt exists as to the quality of a secondary source of repayment.

Grade 9. LOSS - Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future. Also included in this classification is the defined loss portion of loans rated substandard assets and doubtful assets.

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management's most updated judgment regarding grades at December 31, 2019.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2019:

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 64,112	\$ 1,682	\$ 634	\$ -	\$ -	\$ 66,428
Farmland	14,533	331	731	-	-	15,595
1-4 Family Mortgages	79,068	1,917	6,646	-	-	87,631
Commercial Real Estate	169,270	21,266	17,068	-	-	207,604
Total Real Estate Loans	326,983	25,196	25,079	-	-	377,258
Business Loans:						
Commercial and Industrial Loans	80,289	128	4,194	-	-	84,611
Farm Production and Other Farm Loans	669	-	4	-	10	683
Total Business Loans	80,958	128	4,198	-	10	85,294
Consumer Loans:						
Credit Cards	1,770	-	63	-	-	1,833
Other Consumer Loans	11,907	59	53	41	-	12,060
Total Consumer Loans	13,677	59	116	41	-	13,893
Total Loans	\$ 421,618	\$ 25,383	\$ 29,393	\$ 41	\$ 10	\$ 476,445



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2018:

	Satisfactory 1,2,3,4	Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 39,726	\$ 840	\$ 568	\$ -	\$ -	\$ 41,134
Farmland	13,248	339	911	-	-	14,498
1-4 Family Mortgages	79,659	1,751	7,337	-	-	88,747
Commercial Real Estate	172,217	17,938	13,440	-	-	203,595
Total Real Estate Loans	304,850	20,868	22,256	-	-	347,974
Business Loans:						
Commercial and Industrial Loans	63,994	81	2,346	-	-	66,421
Farm Production and Other Farm Loans	876	-	31	-	-	907
Total Business Loans	64,870	81	2,377	-	-	67,328
Consumer Loans:						
Credit Cards	1,628	-	20	-	-	1,648
Other Consumer Loans	12,181	65	71	55	-	12,372
Total Consumer Loans	13,809	65	91	55	-	14,020
Total Loans	\$ 383,529	\$ 21,014	\$ 24,724	\$ 55	\$ -	\$ 429,322

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 6. Purchased Loans**

*(In Thousands)*

For purposes of this Note 6, all references to “loans” means purchased loans.

The following is a summary of purchased loans at December 31:

	2019	2018
Real Estate:		
Land Development and Construction	\$ 14,722	\$ -
Farmland	510	-
1-4 Family Mortgages	35,952	-
Commercial Real Estate	32,436	-
Total Real Estate Loans	83,620	-
Business Loans:		
Commercial and Industrial Loans	14,153	-
Farm Production and Other Farm Loans	884	-
Total Business Loans	15,037	-
Consumer Loans:		
Credit Cards	-	-
Other Consumer Loans	1,973	-
Total Consumer Loans	1,973	-
Total Gross Loans	100,630	-
Unearned Income	-	-
Loans, net of unearned income	\$ 100,630	\$ -

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2019 is as follows:

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 528	\$ -	\$ 528	\$ 14,194	\$ 14,722	\$ -
Farmland	-	-	-	510	510	-
1-4 Family Mortgages	444	-	444	35,508	35,952	-
Commercial Real Estate	603	-	603	31,833	32,436	-
Total Real Estate Loans	1,576	-	1,576	82,044	83,620	-
Business Loans:						
Commercial and Industrial Loans	379	3	382	13,771	14,153	-
Farm Production and Other Farm Loans	-	-	-	884	884	-
Total Business Loans	379	3	382	14,655	15,037	-
Consumer Loans:						
Credit Cards	-	-	-	-	-	-
Other Consumer Loans	49	8	57	1,916	1,973	-
Total Consumer Loans	49	8	57	1,916	1,973	-
Total Loans	\$ 2,003	\$ 11	\$ 2,014	\$ 98,616	\$ 100,630	\$ -

There were no non credit deteriorated loans that were subsequently impaired and recognized in conformity with ASC 310 as of December 31, 2019.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6. Continued**

The following table details the amount of gross loans by loan grade, which are consistent with the Company's loan grades, and class for the year ended December 31, 2019:

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 13,890	\$ 789	\$ 43	\$ -	\$ -	\$ 14,722
Farmland	510	-	-	-	-	510
1-4 Family Mortgages	33,737	1,535	680	-	-	35,952
Commercial Real Estate	30,780	1,656	-	-	-	32,436
Total Real Estate Loans	78,917	3,980	723	-	-	83,620
Business Loans:						
Commercial and Industrial Loans	13,545	608	-	-	-	14,153
Farm Production and Other Farm Loans	884	-	-	-	-	884
Total Business Loans	14,429	608	-	-	-	15,037
Consumer Loans:						
Credit Cards	-	-	-	-	-	-
Other Consumer Loans	1,937	36	-	-	-	1,973
Total Consumer Loans	1,937	36	-	-	-	1,973
Total Loans	\$ 95,283	\$ 4,624	\$ 723	\$ -	\$ -	\$ 100,630



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6. Continued**

Loans purchased in business combinations that exhibited, at the date of acquisition, evidence of deterioration of the credit quality since origination, such that it was probable that all contractually required payments would not be collected, were as follows as of December 31, 2019:

	2019	2018
Real Estate:		
Land Development and Construction	\$ 43	\$ -
Farmland	-	-
1-4 Family Mortgages	706	-
Commercial Real Estate	-	-
Total Real Estate Loans	<u>749</u>	<u>-</u>
 Total PCD Loans	 <u>\$ 749</u>	 <u>\$ -</u>

Non-accrual loans of \$33 are included in the 1-4 Family Mortgages at December 31, 2019.

The following table presents the fair value of loans determined to be impaired at the time of acquisition:

	Total Purchased Credit Deteriorated Loans
Contractually-required principal	\$ 993
Nonaccretable difference	<u>(68)</u>
Cash flows expected to be collected	925
Accretable yield	<u>(36)</u>
Fair Value	<u>\$ 889</u>

Changes in the accretable yield of loans purchased with deteriorated credit quality were as follows:

Balance at January 1, 2019	\$ -
Additions through acquisition	(36)
Reclasses from nonaccretable difference	12
Accretion	8
Charge-off	<u>-</u>
Balance at December 31, 2019	<u>\$ (16)</u>

There were no loans classified as TDRs purchased as part of the acquisition of Charter.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 6. Continued**

The following table presents the fair value of loans purchased from Charter as of the October 1, 2019 acquisition date:

	October 1, 2019
At acquisition date:	
Contractually-required principal	\$ 104,127
Nonaccretable difference	<u>(68)</u>
Cash flows expected to be collected	104,059
Accretable yield	<u>(394)</u>
Fair Value	<u><u>\$ 103,665</u></u>

**Note 7. Allowance for Loan Losses**

*(in thousands)*

The allowance for loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that will occur within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The allowance on the majority of the loan portfolio is calculated using a historical chargeoff percentage applied to the current loan balances by loan segment. This historical period is the average of the previous five years with the most current years weighted to show the effect of the most recent chargeoff activity. This percentage is also adjusted for economic factors such as unemployment and general business conditions, both local and nationwide.

The group of loans that are considered to be impaired are individually evaluated for possible loss and a specific reserve is established to cover any loss contingency. Loans that are determined to be a loss with no benefit of remaining in the portfolio are charged off to the allowance. These specific reserves are reviewed periodically for continued impairment and adequacy of the specific reserve and adjusted when necessary.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7. Continued**

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31:

	2019	Real Estate	Business Loans	Consumer	Total
Beginning Balance		\$ 2,845	\$ 222	\$ 305	\$ 3,372
Provision for loan losses		231	247	95	573
Chargeoffs		115	107	138	360
Recoveries		114	9	47	170
Net chargeoffs		1	98	91	190
Ending Balance		\$ 3,075	\$ 371	\$ 309	\$ 3,755

Period end allowance allocated to:

Loans individually evaluated for impairment	\$ 610	\$ 72	\$ -	\$ 682
Loans collectively evaluated for impairment	2,465	299	309	3,073
Ending Balance	\$ 3,075	\$ 371	\$ 309	\$ 3,755

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7. Continued**

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2018</b>				
Beginning Balance	\$ 2,151	\$ 347	\$ 521	\$ 3,019
Provision for (reversal of) loan losses	606	(113)	(159)	334
Chargeoffs	223	19	145	387
Recoveries	311	7	88	406
Net chargeoffs	(88)	12	57	(19)
Ending Balance	\$ 2,845	\$ 222	\$ 305	\$ 3,372

Period end allowance allocated to:

Loans individually evaluated for impairment	\$ 401	\$ -	\$ -	\$ 401
Loans collectively evaluated for impairment	2,444	222	305	2,971
Ending Balance	\$ 2,845	\$ 222	\$ 305	\$ 3,372

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2017</b>				
Beginning Balance	\$ 3,117	\$ 258	\$ 528	\$ 3,903
Provision for (reversal of) loan losses	(827)	254	30	(543)
Chargeoffs	169	166	102	437
Recoveries	30	1	65	96
Net chargeoffs	139	165	37	341
Ending Balance	\$ 2,151	\$ 347	\$ 521	\$ 3,019

Period end allowance allocated to:

Loans individually evaluated for impairment	\$ 442	\$ -	\$ -	\$ 442
Loans collectively evaluated for impairment	1,709	347	521	2,577
Ending Balance	\$ 2,151	\$ 347	\$ 521	\$ 3,019

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7. Continued**

The Company's recorded investment in loans as of December 31, 2019 and 2018 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

	Real Estate	Business Loans	Consumer	Total
<b>2019</b>				
Loans individually evaluated for impairment	\$ 10,991	\$ 144	\$ -	\$ 11,135
Loans collectively evaluated for impairment	449,138	100,187	15,866	565,191
Acquired with deteriorated credit quality	749	-	-	749
	<u>\$ 460,878</u>	<u>\$ 100,331</u>	<u>\$ 15,866</u>	<u>\$ 577,075</u>
	Real Estate	Business Loans	Consumer	Total
<b>2018</b>				
Loans individually evaluated for impairment	\$ 10,306	\$ -	\$ -	\$ 10,306
Loans collectively evaluated for impairment	337,668	67,328	14,020	419,016
	<u>\$ 347,974</u>	<u>\$ 67,328</u>	<u>\$ 14,020</u>	<u>\$ 429,322</u>



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7. Continued**

Net chargeoffs (recoveries), segregated by class of loans, were as follows:

	2019	2018	2017
Real Estate:			
Land Development and Construction	\$ (18)	\$ 56	\$ 98
Farmland	-	3	-
1-4 Family Mortgages	32	51	41
Commercial Real Estate	(13)	(198)	-
Total Real Estate Loans	1	(88)	139
Business Loans:			
Commercial and Industrial Loans	98	12	165
Total Business Loans	98	12	165
Consumer Loans:			
Credit Cards	34	36	(7)
Other Consumer Loans	57	21	44
Total Consumer Loans	91	57	37
Total Net Chargeoffs (Recoveries)	\$ 190	\$ (19)	\$ 341

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 8. Bank Premises, Furniture, Fixtures and Equipment**

*(in thousands)*

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2019 and December 31, 2018:

	<b>2019</b>	<b>2018</b>
Land and buildings	\$ 33,791	\$ 27,052
Furniture, fixtures and equipment	8,447	6,012
	<u>42,238</u>	<u>33,064</u>
Less accumulated depreciation	17,566	13,347
	<u>24,672</u>	<u>19,717</u>
Total	<u>\$ 24,672</u>	<u>\$ 19,717</u>

Depreciation expense for the years ended December 31, 2019, 2018 and 2017, respectively, was \$899, \$937, and \$1,003.

The Company leases certain premises and equipment under operating leases. At December 31, 2019, the Company had lease liabilities and ROU assets totaling \$771 related to these leases. Lease liabilities and ROU assets are reflected in other liabilities and other assets, respectively. For the twelve months ended December 31, 2019, the weighted average remaining lease term for operating leases was 1.2 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.3%.

Lease costs were as follows:

	<b>Twelve Months Ended December 31, 2019</b>
<i>(in thousands)</i>	
Operating lease cost	\$ 370
Short-term lease cost	23
Variable lease cost	-
	<u>\$ 393</u>

There were no sale and leaseback transactions, leverage leases or lease transactions with related parties during the twelve months ended December 31, 2019.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 8. Continued**

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

	<b>December 31, 2019</b>
Lease payments due:	
Within one year	\$ 348
After one year but within two years	312
After two years but within three years	139
After three year but within four years	2
After four years but within five years	-
After five years	-
Total undiscounted cash flows	801
Discount on cash flows	(30)
Total lease liability	<u>\$ 771</u>

**Note 9. Goodwill and Other Intangible Assets**

*(in thousands)*

Changes in the carrying amount of goodwill during the years ended December 31, 2019 and 2018 were as follows:

	<b>Total</b>
Balance at December 31, 2018	\$ 3,150
Addition to goodwill from Charter acquisition	<u>9,953</u>
Balance at December 31, 2019	<u>\$ 13,103</u>

The additions to goodwill in 2019 from the Charter acquisition represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in the relevant transaction. The Company is in the process of completing Charter's final tax return, core processor conversion and analyzing potential unknown liabilities; as a result, the recorded balance of goodwill attributable to the Charter acquisition is subject to change in future periods.

The following table provides a summary of finite-lived intangible assets as of the dates presented:

	<b>2019</b>	<b>2018</b>
Core deposit intangible	\$ 766	\$ -
Accumulated amortization	<u>(27)</u>	-
Total finite-lived intangible assets	<u>\$ 739</u>	<u>\$ -</u>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9. Continued**

Core deposit intangible amortization expense for the years ended December 31, 2019, 2018 and 2017 was \$27, \$-0- and \$-0-, respectively. The estimated amortization expense of finite-lived intangible assets for the five succeeding fiscal years is summarized as follows:

<b>Year ending December 31,</b>	<b>Amount</b>
2020	\$ 109
2021	109
2022	109
2023	109
2024	109
Thereafter	194
	<u>\$ 739</u>

**Note 10. Deposits**

*(in thousands)*

The composition of deposits as of December 31, 2019 and December 31, 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Non-interest bearing	\$ 190,406	\$ 170,030
NOW and money market accounts	369,354	298,220
Savings deposits	83,065	76,736
Time deposits, \$250,000 or more	74,098	65,407
Other time deposits	182,073	145,829
Total	<u>\$ 898,996</u>	<u>\$ 756,222</u>

The scheduled maturities of time deposits at December 31, 2019 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2020	\$ 137,630
2021	59,641
2022	27,709
2023	15,912
2024	15,279
	<u>\$ 256,171</u>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 11. Federal Home Loan Bank Advances**

*(in thousands)*

Pursuant to collateral agreements with the FHLB, advances are collateralized by all of the Bank's FHLB stock (\$3,083 included in other assets at December 31, 2019) and qualifying first mortgages and other loans. As of December 31, 2019, the balance in qualifying first mortgages and other loans was \$177,592.

There were no outstanding FHLB advances at December 31, 2019 or December 31, 2018.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 12. Other Income and Other Expense**

*(in thousands)*

The following is a detail of the major income classifications that are included in other income under non-interest income on the income statement for the year ended December 31:

Other Income	2019	2018	2017
BOLI Insurance	\$ 471	\$ 495	\$ 528
Mortgage Loan Origination Income	320	363	340
Other Income	1,224	290	447
Total Other Income	<u>\$ 2,015</u>	<u>\$ 1,148</u>	<u>\$ 1,315</u>

The following is a detail of the major expense classifications that comprise the other expense line item in the income statement for the years ended December 31:

Other Operating Expense	2019	2018	2017
Advertising	\$ 551	\$ 640	\$ 650
Office Supplies	973	975	1,009
Professional fees	1,668	561	515
FDIC and State Assessment	274	350	417
Telephone Expense	501	520	530
Postage and Freight	(49)	567	545
Loan Collection Expense	286	288	472
Other Losses	73	243	463
Debit Card/ATM expense	551	471	413
Travel and Convention	200	207	255
Other expenses	2,402	2,582	2,801
Total Other Expense	<u>\$ 7,430</u>	<u>\$ 7,404</u>	<u>\$ 8,070</u>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13. Income Taxes**

*(in thousands)*

Income tax expense consists of the following:

	2019	2018	2017
Current payable (benefit)			
Federal	\$ 806	\$ (181)	\$ 258
State	89	36	(72)
	<u>895</u>	<u>(145)</u>	<u>185</u>
Deferred tax expense	<u>459</u>	<u>973</u>	<u>3,885</u>
Income tax expense	<u>\$ 1,354</u>	<u>\$ 828</u>	<u>\$ 4,071</u>

The differences between income taxes calculated at the federal statutory rate and income tax expense were as follows:

	2019	2018	2017
Federal taxes based on statutory rate	\$ 1,524	\$ 1,575	\$ 2,643
State income taxes, net of federal benefit	145	133	(48)
Tax-exempt investment interest	(309)	(487)	(1,074)
Revaluation of net deferred tax assets as a result of the Tax Cuts and Jobs Act	-	-	2,559
Other, net	<u>(6)</u>	<u>(394)</u>	<u>(9)</u>
Income tax expense	<u>\$ 1,354</u>	<u>\$ 828</u>	<u>\$ 4,071</u>

The Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, among other things, permanently lowered the statutory federal corporate tax rate from 35% to 21%, effective for tax years including or beginning January 1, 2018. Under the guidance of ASC 740, “Income Taxes” (“ASC 740”), the Company revalued its net deferred tax assets on the date of enactment based on the reduction in the overall future tax benefit expected to be realized at the lower tax rate implemented by the new legislation. After reviewing the Company's inventory of deferred tax assets and liabilities on the date of enactment and giving consideration to the future impact of the lower corporate tax rates and other provisions of the new legislation, the Company's revaluation of its net deferred tax assets was \$2,559, which was included in “Income tax expense” in the Consolidated Statements of Income for the year ended December 31, 2017.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13. Continued**

At December 31, 2019 and December 31, 2018, net deferred tax assets consist of the following:

	<b>2019</b>	<b>2018</b>
Deferred tax assets		
Allowance for loan losses	\$ 937	\$ 841
Deferred compensation liability	2,488	2,418
Net operating loss carryforward	1,000	-
Other real estate owned	819	435
Acquisition fair value adjustments	130	-
Unrealized loss on securities available-for-sale	262	4,978
Other	6	-
Total	5,642	8,673
Deferred tax liabilities		
Premises and equipment	1,603	1,856
Core deposit intangible	184	-
Other	171	183
Total	1,958	2,039
Net deferred tax asset	\$ 3,684	\$ 6,634

The Company has evaluated the need for a valuation allowance related to the above deferred tax assets and, based on the weight of the available evidence, has determined that it is more likely than not that all deferred tax assets will be realized.

As of December 31, 2019, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of December 31, 2019, the Company has not accrued for interest and penalties related to uncertain tax positions. It is the Company's policy to recognize interest or penalties related to income tax matters in income tax expense.

The Company and the Bank file a consolidated United States federal income tax return. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2016 through 2018. The Company and Bank's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2016 through 2018.

The Company acquired federal net operating losses as part of its Charter acquisition, with varying expiration periods. The federal net operating losses ("NOLs") acquired were \$4,848, including \$2,060 created prior to 2018 and \$2,788 created during 2019. As part of the Tax Act, the federal NOLs created by Charter during 2019 have an indefinite carryforward period. The federal NOLs created prior to 2018 begin to expire in 2028 and are expected to be fully utilized.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14. Summarized Financial Information of Citizens Holding Company**

*(in thousands)*

Summarized financial information of Citizens Holding Company, excluding the Bank, at December 31, 2019 and December 31, 2018, and for the years ended December 31, 2019, 2018 and 2017, is as follows:

**Balance Sheets**  
December 31, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash <sup>(1)</sup>	\$ 1,736	\$ 1,596
Investment in bank subsidiary <sup>(1)</sup>	110,892	82,002
Other assets <sup>(1)</sup>	172	268
Total assets	<u>\$ 112,800</u>	<u>\$ 83,866</u>
<b>Liabilities</b>		
Other liabilities	\$ -	\$ -
<b>Shareholders' equity</b>	<u>112,800</u>	<u>83,866</u>
Total liabilities and shareholders' equity	<u>\$ 112,800</u>	<u>\$ 83,866</u>

<sup>(1)</sup> Fully or partially eliminates in consolidation.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 14. Continued**

**Income Statements**  
Years Ended December 31, 2019, 2018 and 2017

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Interest income <sup>(1)</sup>	\$ 2	\$ 2	\$ 2
Other income			
Dividends from bank subsidiary <sup>(1)</sup>	11,242	3,990	5,472
Equity in undistributed earnings (loss) of bank subsidiary <sup>(1)</sup>	(4,965)	3,022	(1,349)
Other income	-	-	-
Total other income	6,277	7,012	4,123
Other expense	462	446	460
Income before income taxes	5,817	6,568	3,665
Income tax benefit	(85)	(105)	(38)
Net income	\$ 5,902	\$ 6,673	\$ 3,703

<sup>(1)</sup> Eliminates in consolidation.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14. Continued**

**Statements of Cash Flows**  
Years Ended December 31, 2019, 2018 and 2017

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash flows from operating activities			
Net income	\$ 5,902	\$ 6,673	\$ 3,704
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed loss (earnings) of the Bank	4,965	(3,022)	1,349
Stock compensation expense	163	170	211
Increase in other assets	97	84	266
Net cash provided by operating activities	<u>11,127</u>	<u>3,905</u>	<u>5,530</u>
Cash flows from investing activities			
Net cash paid in acquisition activities	\$ (6,113)	\$ -	\$ -
Net cash used in investing activities	<u>(6,113)</u>	<u>-</u>	<u>-</u>
Cash flows from financing activities			
Dividends paid to shareholders	\$ (4,874)	\$ (4,706)	\$ (4,697)
Proceeds from stock options	<u>-</u>	<u>27</u>	<u>93</u>
Net cash used in financing activities	<u>(4,874)</u>	<u>(4,679)</u>	<u>(4,604)</u>
Net increase (decrease) in cash	<u>140</u>	<u>(774)</u>	<u>926</u>
Cash, beginning of year	<u>1,596</u>	<u>2,370</u>	<u>1,444</u>
Cash, end of year	<u><u>\$ 1,736</u></u>	<u><u>\$ 1,596</u></u>	<u><u>\$ 2,370</u></u>

The Bank is required to obtain approval from state regulators before paying dividends.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 15. Related Party Transactions**

*(in thousands)*

The Company had, and may have in the future, banking transactions in the ordinary course of business with directors, significant shareholders, principal officers, their immediate families, and affiliated companies in which they are principal shareholders (commonly referred to as related parties). In management's opinion, such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties, and do not involve more than the normal risk of collectability at the time of the transaction.

Activity in related party loans is detailed in tabular form in Note 5 of the notes to the Financial Statements.

Deposits from related parties at December 31, 2019 and December 31, 2018 approximated \$5,406 and \$5,606, respectively.

### **Note 16. Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentrations of Risks**

*(in thousands)*

#### Commitments to Extend Credit

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of its customers. These commitments and contingent liabilities include commitments to extend credit and issue standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. At December 31, 2019 and December 31, 2018, commitments related to unused lines of credit were \$94,009 and \$58,835, respectively, and standby letters of credit were \$2,436 and \$2,517, respectively. The fair value of such commitments is not materially different than stated values. As some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed credit worthiness of the borrower. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 16. Continued**

#### Interest Rate Risk

The Company is principally engaged in providing short-term and medium-term installment, commercial and agricultural loans with interest rates that are fixed or fluctuate with the prime lending rate. These assets are primarily funded through short-term demand deposits and long-term certificates of deposit with variable and fixed rates. Accordingly, the Company is exposed to interest rate risk because in changing interest rate environments interest rate adjustments on assets and liabilities may not occur at the same time or in the same amount. The Company manages the overall rate sensitivity and mix of its asset and liability portfolio and attempts to minimize the effects that interest rate fluctuations will have on its net interest margin.

#### Legal Proceedings

We are a party to various legal proceedings such as claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of December 31, 2019 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our business, results of operations or financial condition.

#### Concentration of Risk

The Company makes commercial, residential and consumer loans throughout the state of Mississippi. A substantial portion of the customers' abilities to honor their contracts is dependent on their business and the agricultural economy in the state.

Although the Company's loan portfolio is diversified, there is a relationship in this state and our operating regions between the agricultural economy and the economic performance of loans made to nonagricultural customers. The Company's lending policies for agricultural and nonagricultural customers require loans to be well-collateralized and supported by cash flows. Credit losses from loans related to the agricultural economy are consistent with credit losses experienced in the portfolio as a whole. The concentration of credit in the regional agricultural economy is taken into consideration by management in determining the allowance for loan losses. See Note 5 for a summary of loans by type.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 17. Benefit Plans**

*(in thousands)*

The Company provides its employees with a profit sharing and savings plan, which allows employees to direct a percentage of their compensation into a tax deferred retirement account, subject to statutory limitations. To encourage participation, the Company provides a 50 percent matching contribution for up to a maximum of 3 percent of each participant's compensation, plus discretionary non-matching contributions. Employees are eligible after one year of service. For 2019, 2018 and 2017, the Company's contributions were \$605, \$590 and \$538, respectively.

In connection with the acquisition of Charter, the Company assumed the Charter Bank 401(k) Plan. The plan was terminated by Charter immediately prior to the acquisition where the Charter employees had the choice to rollover their account balance into the Company's plan, rollover their account balance into another account or take a distribution. The final distribution of account balances has occurred. There was no impact on the Company's consolidated financial statements as of and for the years ended December 31, 2019 associated with the plan.

Deferred Compensation Plans

The Company provides a deferred compensation plan covering its directors. Participants in the deferred compensation plan can defer a portion of their compensation for payment after attaining age 70. Life insurance contracts have been purchased which may be used to fund payments under the plan. Expenses related to this plan were \$173, \$194 and \$190 for the plan years ended December 31, 2019, 2018 and 2017, respectively.

The Company has also entered into deferred compensation arrangements with certain officers that provide for payments to such officers or their survivors after retirement. Life insurance policies have been purchased that may be used to fund all or a portion of the payments under these arrangements. The obligations of the Company under both the directors and officers deferred compensation arrangements are expensed on a systematic basis over the remaining expected service period of the individual directors and officers. Expenses related to this plan were \$586, \$535 and \$522 for the plan years ended December 31, 2019, 2018 and 2017, respectively.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 18. Regulatory Matters**

*(in thousands)*

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines involving quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total capital and Tier I capital to risk-weighted assets (as defined in the regulations) and Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2019, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

The FRB, FDIC and other federal banking agencies have established risk-based capital adequacy guidelines. These guidelines are intended to provide a measure of a bank's capital adequacy that reflects the degree of risk associated with a bank's operations.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Since December 31, 1992, the federal banking agencies have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items of 4%.

The Dodd-Frank Act requires the FRB, the Office of the Comptroller of the Currency ("OCC") and the FDIC to adopt regulations imposing a continuing "floor" on the risk based capital requirements. In December 2010, the Basel Committee released a final framework for a strengthened set of capital requirements, known as "Basel III". In July 2013, each of the U.S. federal banking agencies adopted final rules relevant to us: (1) the Basel III regulatory capital reforms; and (2) the "standardized approach of Basel II for non-core banks and bank holding companies, such as the Bank and the Company. The capital framework under Basel III will replace the existing regulatory capital rules for all banks, savings associations and U.S. bank holding companies with greater than \$500 million in total assets, and all savings and loan holding companies.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 18. Continued**

Beginning January 1, 2015, the Bank began to comply with the Basel III rules, which became effective on January 1, 2019. Among other things, the Basel III rules impact regulatory capital ratios of banking organizations in the following manner:

- Create a new requirement to maintain a ratio of common equity Tier 1 capital to total risk-weighted assets of not less than 4.5%;
- Increase the minimum leverage ratio to 4% for all banking organizations (currently 3% for certain banking organizations);
- Increase the minimum Tier 1 risk-based capital ratio from 4% to 6%; and
- Maintain the minimum total risk-based capital ratio at 8%.

In addition, the Basel III rules will subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization did not maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of its total risk-weighted assets. The capital conservation buffer increases the minimum common equity Tier 1 capital ratio to 7%, the minimum Tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5% for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers.

The Basel III rules also changed the capital categories for insured depository institutions for purposes of prompt corrective action. Under the rules, to be well capitalized, an insured depository institution must maintain a minimum common equity Tier 1 capital ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8%, a total risk-based capital ratio of at least 10.0%, and a leverage capital ratio of at least 5%. In addition, the Basel III rules established more conservative standards for including an instrument in regulatory capital and imposed certain deductions from and adjustments to the measure of common equity Tier 1 capital.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 18. Continued**

As of December 31, 2019 and 2018, the most recent regulatory notification categorized the Bank as well capitalized. There have been no conditions or events that would cause changes to the capital structure of the Company since this notification. To continue to be categorized as well capitalized under the regulatory framework for prompt corrective action, the Company would have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed below, in comparison with actual capital amounts and ratios:

	Actual		Minimum Capital Requirement to be Well Capitalized		Minimum Capital Requirement to be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2019</b>						
Citizens Holding Company						
Tier 1 leverage ratio	\$ 98,733	8.33%	\$ 59,270	5.00%	\$ 47,416	4.00%
Common Equity tier 1 capital ratio	98,733	8.33%	77,051	6.50%	53,343	4.50%
Tier 1 risk-based capital ratio	98,733	13.86%	56,972	8.00%	42,729	6.00%
Total risk-based capital ratio	102,488	14.39%	71,215	10.00%	56,972	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$ 96,824	8.18%	\$ 59,206	5.00%	\$ 47,365	4.00%
Common Equity tier 1 capital ratio	96,824	8.18%	76,968	6.50%	53,285	4.50%
Tier 1 risk-based capital ratio	96,824	13.60%	56,958	8.00%	42,719	6.00%
Total risk-based capital ratio	100,579	14.13%	71,198	10.00%	56,958	8.00%
<b>December 31, 2018</b>						
Citizens Holding Company						
Tier 1 leverage ratio	\$ 95,691	9.93%	\$ 48,191	5.00%	\$ 38,553	4.00%
Common Equity tier 1 capital ratio	95,691	9.93%	62,648	6.50%	43,372	4.50%
Tier 1 risk-based capital ratio	95,691	17.41%	43,966	8.00%	32,974	6.00%
Total risk-based capital ratio	99,063	18.03%	54,957	10.00%	43,966	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$ 93,827	9.74%	\$ 48,178	5.00%	\$ 38,542	4.00%
Common Equity tier 1 capital ratio	93,827	9.74%	62,631	6.50%	43,360	4.50%
Tier 1 risk-based capital ratio	93,827	17.08%	43,944	8.00%	32,958	6.00%
Total risk-based capital ratio	97,199	17.69%	54,930	10.00%	43,944	8.00%

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 19. Fair Values of Financial Instruments**

*(in thousands)*

Under the authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the three following categories:

- |         |  |
|---------|--|
| Level 1 | Quoted prices in active markets for identical assets or liabilities;   |
| Level 2 | Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or |
| Level 3 | Unobservable inputs, such as discounted cash flow models or valuations.  |

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company used the following methods and assumptions to estimate the fair value of financial instruments that are measured at fair value on a recurring basis:

#### Investment Securities

The fair values of debt securities available for sale are determined by third party matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 19. Continued**

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government agencies	\$ -	\$ 97,111	\$ -	\$ 97,111
Mortgage-backed securities	-	306,900	-	306,900
State, County, Municipals	-	60,372	-	60,372
	<u>\$ -</u>	<u>\$ 464,383</u>	<u>\$ -</u>	<u>\$ 464,383</u>

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2018:

	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government agencies	\$ -	\$ 95,978	\$ -	\$ 95,978
Mortgage-backed securities	-	247,374	-	247,374
State, County, Municipals	-	101,394	-	101,394
	<u>\$ -</u>	<u>\$ 444,746</u>	<u>\$ -</u>	<u>\$ 444,746</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 19. Continued**

Impaired Loans

Loans considered impaired are reserved for at the time the loan is identified as impaired taking into account the fair value of the collateral less estimated selling costs. Collateral may be real estate and/or business assets including but not limited to, equipment, inventory and accounts receivable. The fair value of real estate is determined based on appraisals by qualified licensed appraisers. The fair value of the business assets is generally based on amounts reported on the business's financial statements. Appraised and reported values may be adjusted based on management's historical knowledge, changes in market conditions from the time of valuation and management knowledge of the client and the client's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified Level 3. The unobservable inputs may vary depending on the individual assets with the fair value of real estate based on appraised value being the predominant approach. The Company reviews the certified appraisals for appropriateness and adjusts the value downward to consider selling, closing and liquidation costs, which typically approximates 25% of the appraised value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified.

Other real estate owned

OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. The Company reviews the third-party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically approximate 25% of the appraised value.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 19. Continued**

The following table presents assets measured at fair value on a nonrecurring basis during December 31, 2019 and 2018 and were still held at those respective dates:

	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<u>December 31, 2019</u>				
Impaired loans	\$ -	\$ -	\$ 4,576	\$ 4,576
	\$ -	\$ -	\$ 4,576	\$ 4,576
<u>December 31, 2018</u>				
Impaired loans	\$ -	\$ -	\$ 3,365	\$ 3,365
Other real estate owned	-	-	189	189
	\$ -	\$ -	\$ 3,554	\$ 3,554

Impaired loans with a carrying value of \$5,003 and \$3,365 had an allocated allowance for loan losses of \$427 and \$401 at December 31, 2019 and December 31, 2018, respectively. The allocated allowance is based on the carrying value of the impaired loan and the fair value of the underlying collateral less estimated costs to sell.

After monitoring the carrying amounts for subsequent declines or impairment after foreclosure, management determined that no fair value adjustments to OREO was necessary or recorded during the year ended December 31, 2019 and December 31, 2018, respectively.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 19. Continued**

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2019 and December 31, 2018:

		Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	Carrying Value						
2019							
Financial assets							
Cash and due from banks	\$ 15,937	\$ 15,937	\$ -	\$ -	\$ 15,937		
Interest bearing deposits with banks	58,557	58,557	-	-	58,557		
Federal funds sold	1,600	1,600	-	-	1,600		
Securities available-for-sale	464,383	-	464,383	-	464,383		
Net loans	573,312	-	-	569,640	569,640		
Financial liabilities							
Deposits	\$ 898,996	\$ 642,825	\$ 258,100	\$ -	\$ 900,925		
Securities Sold under Agreement to Repurchase	170,410	170,410	-	-	170,410		
		Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	Carrying Value						
2018							
Financial assets							
Cash and due from banks	\$ 12,592	\$ 12,592	\$ -	\$ -	\$ 12,592		
Interest bearing deposits with banks	8,080	8,080	-	-	8,080		
Securities available-for-sale	444,746	-	444,746	-	444,746		
Net loans	425,905	-	-	420,992	420,992		
Financial liabilities							
Deposits	\$ 756,222	\$ 544,986	\$ 210,477	\$ -	\$ 755,463		
Securities Sold under Agreement to Repurchase	107,965	107,965	-	-	107,965		

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 20. Stock Based Compensation**

*(in thousands, except share data)*

The Company has a directors' stock compensation plan and had an employees' long-term incentive plan. Under the directors' plan, the Company may grant options for up to 210,000 shares of common stock. The price of each option is equal to the market price determined as of the option grant date. Options granted are exercisable after six months and expire after 10 years. The employee plan expired on April 13, 2009, no options have been granted since this date and all previously granted options either expired or were exercised as of December 31, 2019. The options previously granted under the employee plan expire 10 years from the grant date. The exercise price is equal to the market price of the Company's stock on the date of grant.

The fair value of each option granted is estimated on the date of the grant using the Black-Sholes option-pricing model. No options were granted in 2019 or 2018, therefore no calculations were required in 2019 or 2018 to determine fair values.

The Company has adopted the 2013 Incentive Compensation Plan (the "2013 Plan"), which the Company has used for all equity grants after the adoption and approval of the 2013 Plan.

During 2019, the Company's directors received restricted stock grants totaling 7,500 shares of common stock at a then market value of \$21.53 per share and in 2018 received 7,500 shares of common stock at a then market value of \$22.05 per share. These grants vest over a one-year period during which time the recipients have rights to vote the shares and to receive dividends. The grant date fair value of these shares granted in 2019 was \$161 and will be recognized over the one-year restriction period at a cost of \$13 per month less deferred taxes of \$3 per month. The grant date fair value of the shares granted in 2018 was \$165 and was recognized over the one-year restriction period at a cost of \$14 per month less deferred taxes of \$3 per month.

During 2015, 7,500 shares of restricted stock was granted to the Chief Executive Officer (CEO) that would vest according to a stock performance schedule over the next five years. The stock performance for the Company met the goal for 2016 and the CEO became vested in 20%, or 1,500 shares of the restricted stock at an expense of \$32. Again in 2017, the Company met 20% of its goal and the CEO became vested in an additional 1,500 shares of the restricted stock at an expense of \$37. The stock performance for the Company did not meet the goal in 2019 or 2018 and no corresponding expense was recorded.

During 2019 and 2018, the Company recorded expense of \$163 and \$170 and recorded deferred taxes in the amounts of \$41 and \$42, respectively, related to all of the restricted shares.

At December 31, 2019, there were 12,000 shares non-vested with \$54 in unrecognized stock-based compensation expense related to the 2013 Plan.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 20. Continued**

Following is a summary of the status of the stock options remaining under the plans for the years ending December 31, 2019, 2018 and 2017:

	<b>Directors' Plan</b>	
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2017	78,000	\$ 21.08
Granted	-	-
Exercised	(6,000)	20.94
Expired	(9,000)	22.00
Outstanding at December 31, 2017	63,000	\$ 20.96
Granted	-	-
Exercised	(6,000)	18.00
Expired	(4,500)	18.00
Outstanding at December 31, 2018	52,500	\$ 21.55
Granted	-	-
Exercised	-	-
Expired	(12,000)	21.75
Outstanding at December 31, 2019	40,500	\$ 21.49
Options exercisable at: December 31, 2019	40,500	\$ 21.49

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2019, 2018 and 2017

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 20. Continued**

The following table presents the outstanding stock options granted in relation to the option price and the weighted average maturity.

Range of Exercise Prices	Options Outstanding	Weighted Average Price	Weighted Average Life Remaining
\$15.01 to \$20.00	13,500	18.76	2 years, 4 months
\$20.01 to \$22.50	13,500	20.02	1 year, 4 months
\$22.51 and above	13,500	25.72	4 months
Total	40,500	\$21.49	1 years, 4 months

The intrinsic value of options outstanding under the Directors' Plan at December 31, 2019 was \$52. Additionally, the total intrinsic value of options exercised during 2019 and 2018 was \$-0- and \$24, respectively.

There were no options granted during 2019 under the 2013 Plan.



**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**as of December 31, 2019, 2018 and 2017**  
*(in thousands)*

## OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2019, 2018 and 2017. In this discussion, all references to the activities, operations or financial performance of the Company reflect the Company's activities, operations and financial performance through its wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), unless otherwise specifically noted. The Company's financial statements and accompanying notes should be read in conjunction with this Management's Discussion and Analysis.

Over the past three years, the Company has experienced growth in total loans as management has capitalized on opportunities for organic growth within the Company's market area. Total loans increased over the three-year period by \$170,462 or 41.9%. Of the loan growth, \$104,127 was purchased in the acquisition of Charter and \$66,335, or 16.3%, was organic growth. In the three-year period, net income increased by \$2,198 or 59.3%. A large part of this net income growth was due to the tax consequences recorded in the year ended 2017 related to the Tax Act, discussed further in Note 13. Income Taxes. Excluding the impact of the Tax Act of \$2,559 in 2017, net income has decreased \$361 or 9.7%. As competition for deposits has increased, the cost of deposits has also increased. The yield on earning assets hasn't increased at the same rate as interest bearing liabilities. Management continues to focus on growing non-interest income while containing costs to the extent possible to help offset shrinking margins. Due to the loan growth over the period, management has increased the provision for loan losses to help manage risks. All of these factors are driving the net income results and continue to be a focus of management moving forward.

During 2019 as compared to 2018, the Company's total assets increased by \$236,804, or 24.7%, loans increased by \$147,753, or 34.4%, and total deposits increased by \$142,774, or 18.9%. Loans increased in 2019 due to an increased focus on loan production in the Company's service area coupled with the acquisition of Charter. Certificates of deposit ended 2019 at \$256,171, or 21.3% higher than 2018. Demand, NOW, savings and money market accounts increased \$97,839, or 12.9% from December 31, 2018 to \$642,825 at December 31, 2019.

During 2018 as compared to 2017, the Company's total assets decreased by \$34,465, or 3.5%, loans increased by \$23,515, or 5.8%, and total deposits increased by \$35,536, or 4.9%. Loans increased in 2018 due to an increased focus on loan production in the Company's service area, including the loan production office in North Mississippi. Certificates of deposit ended 2018 at \$211,236, or 19.0% higher than 2017. Demand, NOW, savings and money market accounts increased \$1,863, or 0.3% from December 31, 2017 to \$544,986 at December 31, 2018.

In 2019, the Company's net income after taxes decreased to \$5,902, a decrease of \$771 from 2018. This decrease was primarily due to a decrease in the Company's net interest margin caused by an increase in cost funds in excess of the increase in yields on earning assets. An increase in non-interest income coupled with the decrease in non-interest expense helped offset

the decrease in net interest income. Net income for 2019 produced, on a fully diluted basis, earnings per share of \$1.17 compared to \$1.36 for 2018.

In 2018, the Company's net income after taxes increased to \$6,673, an increase of \$2,930 from 2017. The bulk of this increase was from the Tax Act that was signed into law on December 22, 2017. The Tax Act, which negatively impacted 2017 earnings, resulted in an increase in the income tax expense related to this in the amount of \$2,559 in 2017. Net interest income after the provision for loan losses decreased in 2018 primarily due to an increase in interest expense on interest bearing liabilities and an increase in the provision for loan losses. An increase in non-interest income coupled with the decrease in non-interest expense helped offset the decrease in net interest income. Net income for 2018 produced, on a fully diluted basis, earnings per share of \$1.36 compared to \$0.76, after the deferred tax adjustment, for 2017.

The Company's return on average assets ("ROA") was 0.51% in 2019, compared to 0.69% in 2018 and 0.37% in 2017. The Company's return on average equity ("ROE") was 6.13% in 2019, 7.95% in 2018 and 4.10% in 2017. During these periods, leverage capital ratios (the ratio of equity to average total assets) increased from 9.17% in 2017 to 9.74% in 2018 and decreased to 8.18% in 2019. The ROE in 2019, 2018 and 2017 is a function of the level of net income and equity balances during those years. The changes in ROA were also a result of the Company's net income in those years and also affected by the increase in total assets during these time periods. The Company set the annual dividend payout rate to approximately 82.05% of 2019 earnings per share, as compared to 70.59% in 2018 and 126.32% in 2017. The leverage capital ratio of 8.18% in 2019 remains above the regulatory requirement of 5% to be considered "well capitalized" under applicable Federal Deposit Insurance Corporation (the "FDIC") guidelines for the Bank.

The Company's net interest income, non-interest income and income from continuing operations are not directly affected by inflation and changing prices although these factors could influence our customers' ability to repay loans or cause them to withdraw deposits. The impact of a slowdown in loan repayments could be felt in both liquidity and income. It could affect liquidity by reducing the amount of cash available for new loans and income by increasing the amount of the provision for loan loss expense due to loans that are charged off.

Liquidity is discussed in more detail beginning on page 94 of this report under the heading, *Liquidity and Rate Sensitivity*. The Company did not have any commitments at December 31, 2019 that would require a material expenditure of capital resources.

The Company is not aware of any developments that would have material impact on its revenues or net income. Interest rate movements are currently projected to be stable for 2020 but it is difficult to know the frequency and size of interest rate movements, if any. A measured increase in interest rates could have the effect of increasing revenues and net income.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Allowance for Loan Losses

The accounting policy most important to the presentation of the Company's financial statements relates to the allowance for loan loss and the related provision for loan losses. The allowance for loan losses is available to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on a monthly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under ASC Subtopic 450-20, *Loss Contingencies*. The collective impairment is calculated based on loans grouped by similar risk characteristics. Another component of the allowance is losses on loans assessed as impaired under ASC Subtopic 310-10, *Loan Impairments*. The balance of these loans determined to be impaired under ASC Subtopic 310-10 and their related allowance is included in management's estimation and analysis of the allowance for loan losses. For a discussion of other considerations in establishing the allowance for loan losses and the Company's and the Bank's loan policies and procedures for addressing credit risk, please refer to the disclosures in this Item under the heading "Provision for Loan Losses and Asset Quality."

Loans purchased in acquisitions or mergers with evidence of credit deterioration since origination are accounted for under ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). ASC 310-30 prohibits the carryover of an allowance for loan losses for loans purchased in which the acquirer concludes that it will not collect the contractual amount. As a result, these loans are carried at values which represent management's estimate of the future cash flows of these loans. Increases in expected cash flow to be collected from the contractual cash flows are required to be recognized as an adjustment of the loan's yield over its remaining life, while decreases in expected cash flows are required to be recognized as an impairment. A more detailed discussion of loans accounted for under ASC 310-30, which were acquired in connection with our mergers, including our acquisitions of Charter, is set forth below under the heading "Provision for Loan Losses and Asset Quality" and in Note 6, "Purchased Loans" in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

### Other Than Temporary Impairment

The Company currently classifies a portion of its debt securities as AFS as they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for

mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement; and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

#### Other Real Estate

Real estate acquired through foreclosure on a loan or by surrender of the real estate in lieu of foreclosure is called “OREO”. OREO is initially recorded at the fair value of the property less estimated costs to sell, which establishes a new cost basis. OREO is subsequently accounted for at the lower of cost or fair value of the property less estimated costs. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Valuation adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Valuation adjustments are also required when the listing price to sell an OREO has had to be reduced below the current carrying value. If there is a decrease in the fair value of the property from the last valuation, the decrease in value is charged to noninterest expense. All income produced from, changes in fair values in, and gains and losses on OREOs is also included in noninterest expense. During the time the property is held, all related operating and maintenance costs are expensed as incurred.

#### Business Combinations, Accounting for Purchased Loans

The Company accounts for its acquisitions under ASC 805, “Business Combinations,” which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, and liabilities assumed are recorded at fair value and recognized separately from goodwill. For a purchased loan, no allowance for loan losses is recorded on the acquisition date because the fair value measurements incorporate assumptions regarding credit risk. This applies even to a purchased loan with evidence of credit deterioration since origination pursuant to ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”). Generally speaking, rather than carry over an allowance for loan losses, as part of the acquisition we establish a “Day 1 Fair Value” of a purchased loan or pools of purchased loans sharing common risk characteristics, which equals the outstanding balance of a purchased loan or

pool on the acquisition date less any credit and/or yield discount applied against the purchased loan or pool of loans. In other words, these loans or pools of loans are carried at values which represent our estimate of their future cash flows. After the acquisition date, a purchased loan or pool of loans will either meet or exceed the performance expectations established in determining the Day 1 Fair Values or deteriorate from such expected performance. If the cash flows expected to be collected on a purchased loan or pool of loans decreases from expectations established in determining the Day 1 Fair Values or since our most recent review of such portfolio's performance, then the decrease is recognized as an impairment, and the Company provides for such loan or pool in the provision for loan losses in its consolidated statement of income; ultimately, the Company may partially or fully charge-off the carrying value thereof. If performance expectations are exceeded such that we increase our expectations of cash flows to be collected on the loan or pool, then the Company reverses any previous provision for such loan or pool and, if it continues to exceed expectations subsequent to the reversal of any previously-established provision, then we adjust the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life, which has a positive impact on interest income.

Additional detail about our loans acquired in connection with our mergers, including our acquisition of Brand, is set forth below under the heading "Risk Management - Allowance for Loan Losses" and in Note 6, "Purchased Loans" in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, in this report.

### Intangible Assets

Goodwill resulting from business combinations represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead reviewed for impairment when there is evidence to suggest that the estimated fair value of the net assets is lower than the carrying value, or at a minimum of once a year. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill was the only intangible asset with an indefinite life on the Company's balance sheet. Other intangible assets consisted of core deposit intangibles arising from the Company's acquisition of Charter. These assets are initially measured at fair value and then are amortized on a straight-line method over their estimated useful lives, which were determined to be 7 years.

### Stock Based Compensation

The Company recognizes stock compensation expenses in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"). The Company sponsors stock plans which most commonly include restricted stock and stock options. The Company accounts for stock based compensation under the fair value recognition provisions whereby compensation cost is measure based on the fair value of the award at the grant date and is recognized in the consolidated financial statements on a straight-line basis over the requisite service period. The fair value of restructured stock is determined based on the closing price of the Company's common stock on the date of grant. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. For more information on the Company's stock options and the assumptions used to calculate the expense of such options, please refer to

Note 1, “Summary of Significant Accounting Policies,” and Note 20, “Stock Based Compensation” to the Company’s Consolidated Financial Statements included in this Annual Report.

### Income Taxes

The Company uses the asset and liability method, which recognizes the future tax consequences attributable to an event or a liability or asset that has been recognized in the consolidated financial statements. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent “temporary differences.” Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Deferred tax assets represent future deductions in the Company’s income tax return, while deferred tax liabilities represent future payments to tax authorities. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Please refer to Note 1, “Summary of Significant Accounting Policies,” to the Consolidated Financial Statements of the Company included in this Annual Report for a detailed discussion of other significant accounting policies affecting the Company.



## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on management's beliefs, plans, expectations, assumptions and on information currently available to management. The words "may," "should," "expect," "anticipate," "intend," "plan," "continue," "believe," "seek," "estimate" and similar expressions used in this report that do not relate to historical facts are intended to identify forward-looking statements. These statements appear in a number of places in this report, including, but not limited to, statements found in Item 1, "Business," and in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Citizens Holding Company (the "Company") notes that a variety of factors could cause its actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the business of the Company and the Company's wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), include, but are not limited to, the following:

- expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions;
- adverse changes in asset quality and loan demand, the potential insufficiency of the allowance for loan losses and our ability to foreclose on delinquent mortgages;
- the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Company operates;
- extensive regulation, changes in the legislative and regulatory environment that negatively impact the Company and the Bank through increased operating expenses and the potential for regulatory enforcement actions, claims or litigation;
- increased competition from other financial institutions and the risk of failure to achieve our business strategies;
- events affecting our business operations, including the effectiveness of our risk management framework, the accuracy of our estimates, our reliance on third party vendors, the risk of security breaches and potential fraud, and the impact of technological advances;
- our ability to maintain sufficient capital and to raise additional capital when needed;
- our ability to maintain adequate liquidity to conduct business and meet our obligations;
- events affecting our ability to compete effectively and achieve our strategies, such as the risk of failure to achieve the revenue increases expected to result from our acquisitions, branch additions and in new product and service offerings, our ability to control expenses and our ability to attract and retain skilled people;
- events that adversely affect our reputation, and the resulting potential adverse impact on our business operations;
- risks arising from owning our common stock, such as the volatility and trading volume, our ability to pay dividends, the regulatory limitations on stock ownership, and provisions in our governing documents that may make it more difficult for another party to obtain control of us; and

- other risks detailed from time-to-time in the Company's filings with the Securities and Exchange Commission.

The Company undertakes no obligation to update or revise any forward-looking statements subsequent to the date on which they are made.

## **SELECTED FINANCIAL DATA**

The following selected financial data has been taken from the Company's Consolidated Financial Statements and related notes included in this Annual Report and should be read in conjunction with such consolidated financial statements and related notes. Dollar references in all of the following tables are in thousands except for per share data.

The major components of the Company's operating results for the past five years are summarized in Table 1 - Five Year Financial Summary of Consolidated Statements and Related Statistics.

**TABLE 1 - FIVE YEAR SUMMARY OF CONSOLIDATED STATEMENTS AND RELATED STATISTICS** (in thousands, except per share and ratio amounts)

	2019	2018	2017	2016	2015
<b><u>Summary of Earnings</u></b>					
Total Interest Income	\$ 35,361	\$ 31,359	\$ 30,505	\$ 30,169	\$ 30,965
Total Interest Expense	9,722	4,459	3,343	3,098	3,077
Provision for loan losses	573	334	(543)	(65)	556
Non-interest income	9,748	8,599	8,296	7,692	8,327
Non-interest expense	27,558	27,665	28,227	26,480	25,591
Income tax expense	1,354	828	4,070	1,612	2,479
Net Income	5,902	6,673	3,704	6,737	7,589
<b><u>Per Share Data</u></b>					
Earnings-basic	\$ 1.17	\$ 1.36	\$ 0.76	\$ 1.38	\$ 1.56
Earnings-diluted	1.17	1.36	0.76	1.38	1.56
Cash dividends	0.96	0.96	0.96	0.96	0.93
Book value at year end	20.22	17.09	18.07	17.42	17.73
<b><u>Selected Year End Actual Balances</u></b>					
Loans, net of unearned income	\$ 577,067	\$ 429,277	\$ 406,605	\$ 394,051	\$ 429,582
Allowance for loan losses	3,755	3,372	3,019	3,903	6,474
Investment Securities	464,383	444,746	505,046	496,125	428,308
Earning assets	1,105,103	885,416	910,283	935,957	894,765
Total assets	1,195,434	958,630	993,096	1,025,212	973,505
Deposits	898,996	756,222	720,685	760,152	753,405
Long term borrowings	6	15	20,000	20,000	20,000
Shareholders' equity	112,800	83,866	88,451	85,059	86,425
<b><u>Selected Year End Average Balances</u></b>					
Loans, net of unearned income	\$ 561,483	\$ 418,136	\$ 395,217	\$ 409,367	\$ 412,161
Allowance for loan losses	3,667	3,002	3,586	5,051	6,637
Investment securities	458,522	484,298	511,133	475,714	421,729
Earning assets	1,068,683	911,175	929,260	917,366	863,830
Total assets	1,164,570	971,893	1,013,177	996,266	945,270
Deposits	929,598	760,992	762,983	766,264	725,116
Long term borrowings	10	19	20,000	20,042	20,056
Shareholders' equity	96,295	83,907	90,230	91,766	84,250

	2019	2018	2017	2016	2015
<b><u>Selected Ratios</u></b>					
Return on average assets	0.51%	0.69%	0.37%	0.68%	0.80%
Return on average equity	6.13%	7.95%	4.10%	7.34%	9.01%
Dividend payout ratio	82.05%	70.59%	126.32%	69.57%	59.62%
Equity to year end assets	9.44%	8.75%	8.91%	8.30%	8.88%
Total risk-based capital to risk-adjusted assets	14.13%	17.69%	18.51%	18.67%	17.54%
Leverage capital ratio	8.18%	9.74%	9.17%	9.22%	9.26%
Efficiency ratio	77.88%	75.99%	76.35%	71.49%	68.69%

## NET INCOME

Net income for 2019 decreased by 11.6% to \$5,902 or \$1.17 per share-basic and -diluted, from \$6,673 or \$1.36 per share-basic and -diluted for 2018. The provision for loan losses for 2019 was \$573 as compared to \$334 in 2018. The increase in the loan loss provision for 2019 was mainly due to the increase in the balance of loans outstanding coupled with management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. Non-interest income increased by \$1,148, or 13.4%, and non-interest expense decreased by \$106 or 0.4%, in 2019. Non-interest income for 2019 increased primarily due to the result of gains from security sales and other real estate coupled with death benefit proceeds from a bank-owned life insurance policy offset by a decrease in mortgage loan origination income. Non-interest expense decreased mainly due to a refund of excess prepaid postage and continued cost containment focus throughout the Company, partially offset by an increase in salaries and benefits related to the Charter acquisition.

Net income for 2018 increased by 0.9% to \$6,673 or \$1.36 per share-basic and -diluted, from \$3,704 or \$0.76 per share-basic and -diluted for 2017. The provision for loan losses for 2018 was a positive \$334 as compared to negative \$543 in 2017. The increase in the loan loss provision for 2018 was mainly due to the increase in the balance of loans outstanding coupled with management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. Non-interest income increased by \$303, or 3.7%, and non-interest expense decreased by \$562 or 2.0%, in 2018. Non-interest income for 2018 increased primarily due to an increase in service charges on deposit accounts and other service charges and fees offset by a decrease in other income. Non-interest expense decreased due to a decrease in salaries and benefits, loan collection expense, other losses and a reduction in other expenses.

Net income for 2017 decreased by 45.0% to \$3,704 or \$0.76 per share-basic and -diluted, from \$6,737 or \$1.38 per share-basic and -diluted for 2016. The provision for loan losses for 2017 was a negative \$543 as compared to negative \$65 in 2016. The increase in the negative loan loss provision for 2017 was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions and low level of prior years' loan losses offset by the increase in the balance of loans outstanding. Non-interest income increased by \$605, or 7.9%, and non-interest expense increased by \$1,748 or 6.6%, in 2017. Non-interest income for 2017 increased primarily due to

an increase in other service charges and fees. Non-interest expense increased due to an increase in salaries and benefits, loan collection expense and office supplies.

## **NET INTEREST INCOME**

Net interest income is the most significant component of the Company's earnings. Net interest income is the difference between interest and fees realized on earning assets, primarily loans and securities, and interest paid on deposits and other borrowed funds. The net interest margin is this difference expressed as a percentage of average earning assets. Net interest income is affected by several factors, including the volume of earning assets and liabilities, the mix of earning assets and liabilities, and interest rates. The discussion below is presented on a tax equivalent basis which management believes to be the best way to analyze net interest income.

Net interest income on a tax equivalent basis was \$29,897, \$27,806 and \$28,339 for the years 2019, 2018 and 2017, respectively. Net interest margin was 2.77%, 3.05% and 3.01% for the same periods. During 2019, the yields on interest earning assets and the rates paid on interest bearing deposits increased. In 2019 as compared to 2018, interest-bearing assets increased by \$167,713, or 18.4% and interest-bearing liabilities increased by \$145,753, or 20.5%. For the year ended December 31, 2019, the average yield on earnings assets was 3.77%, an increase of 23 basis points compared to the average yield at December 31, 2018. The average rate paid on interest-bearing liabilities was 1.26%, an increase of 64 basis points compared to the average rate at December 31, 2018.

During 2018, the yields on interest earning assets and the rates paid on interest bearing deposits increased. In 2018 as compared to 2017, interest-bearing assets decreased by \$24.9 million, or 2.7% and interest-bearing liabilities decreased by \$41.2 million, or 5.6%. For the year ended December 31, 2018, the average yield on earnings assets was 3.54%, an increase of 18 basis points compared to the average yield at December 31, 2017. The average rate paid on interest-bearing liabilities was 0.62%, an increase of 18 basis points compared to the average rate at December 31, 2017.

During this three-year period, loans outstanding increased in 2017, 2018 and 2019. Loans generally provide the Company with yields that are greater than the yields on typical investment securities.

Table 2 – Average Balance Sheets and Interest Rates sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the fiscal years ended December 31, 2019, 2018 and 2017.

TABLE 2 – AVERAGE BALANCE SHEETS AND INTEREST RATES

(in thousands)									
	Average Balance			Income/Expense			Average Yield/Rate		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Loans:									
Loans, net of unearned <sup>(1)</sup>	\$560,888	\$417,624	\$394,684	\$29,427	\$20,287	\$18,782	5.25%	4.86%	4.76%
Investment Securities									
Taxable	388,490	376,392	392,626	7,993	8,345	8,178	2.06%	2.22%	2.08%
Tax-exempt	78,843	107,906	129,709	2,423	3,445	4,448	3.07%	3.19%	3.43%
Total Investment Securities	467,333	484,298	522,335	10,416	11,790	12,626	2.23%	2.43%	2.42%
Federal Funds Sold and Other	50,666	9,253	24,999	854	157	274	1.69%	1.70%	1.09%
Total Interest Earning Assets <sup>(1)(2)</sup>	1,078,887	911,175	942,018	40,697	32,234	31,682	3.77%	3.54%	3.36%
Non-Earning Assets	85,683	69,971	71,159						
Total Assets	\$1,164,570	\$981,146	\$1,013,177						
Deposits:									
Interest-bearing Demand									
Deposits <sup>(3)</sup>	\$381,635	\$325,192	\$347,260	\$3,468	\$1,131	\$806	0.91%	0.35%	0.23%
Savings	79,886	79,281	74,923	130	113	133	0.16%	0.14%	0.14%
Time	274,597	191,836	189,359	5,226	1,536	983	1.90%	0.80%	0.52%
Total Deposits	736,118	596,309	611,542	8,824	2,780	1,922	1.20%	0.47%	0.31%
Borrowed Funds									
Short-term Borrowings	121,951	116,787	130,248	1,976	1,648	907	1.62%	1.41%	0.70%
Long-term Borrowings	-	-	20,000	-	-	514	0.00%	0.00%	2.53%
Total Borrowed Funds	121,951	116,787	150,248	1,976	1,648	1,421	1.62%	1.41%	0.95%
Total Interest-Bearing Liabilities <sup>(3)</sup>	858,069	713,096	761,790	10,800	4,428	3,343	1.26%	0.62%	0.44%
Non-Interest Bearing Liabilities									
Demand Deposits	192,672	164,682	150,689						
Other Liabilities	17,534	10,208	10,468						
Shareholders' Equity	96,295	93,160	90,230						
Total Liabilities and Shareholders' Equity	\$1,164,570	\$981,146	\$1,013,177						
Interest Rate Spread							2.51%	2.92%	2.92%
Net Interest Margin				\$29,897	\$27,806	\$28,339	2.77%	3.05%	3.01%
Less									
Tax Equivalent Adjustment				654	906	1,177			
Net Interest Income				\$29,243	\$26,900	\$27,162			



- (1) Overdrafts on demand deposit accounts are not included in the average volume calculation as they are not considered interest earning assets by the Company. They are included in the “Non-Earning Assets” balance above.
- (2) Earning Assets in Table 2 does not include the dividend paying stock of the Federal Home Loan Bank.
- (3) Demand deposits are not included in the average volume calculation as they are not interest bearing liabilities. They are included within the non-interest bearing liabilities section above.

Table 3 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2019, 2018, and 2017.

TABLE 3 – NET AVERAGE INTEREST EARNING ASSETS

	(in thousands)		
	2019	2018	2017
Average interest earning assets	\$ 1,078,887	\$ 911,175	\$ 942,018
Average interest bearing liabilities	858,069	713,096	761,790
Net average interest earning assets	\$ 220,818	\$ 198,079	\$ 180,228

Table 4 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2017 through 2019. Variances, which were attributable to both volume and rate, are allocated proportionately between rate and volume using the absolute values of each for a basis for the allocation. Non-accruing loans are included in the average loan balances used in determining the yields. Interest income on tax-exempt securities and loans has been adjusted to a tax equivalent basis using a federal income tax rate of 21% in 2019 and 2018, respectively.

TABLE 4 – VOLUME/RATE ANALYSIS

	(in thousands)					
	2019 Change from 2018			2018 Change from 2017		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$ 6,959	2,181	\$ 9,140	\$ 1,114	\$ 391	\$ 1,505
Taxable Securities	268	(620)	(352)	(360)	527	167
Non-Taxable Securities	(928)	(94)	(1,022)	(696)	(307)	(1,003)
Federal Funds Sold and Other	703	(6)	697	(267)	150	(117)
TOTAL INTEREST INCOME	\$ 7,002	\$ 1,461	\$ 8,463	\$ (209)	\$ 761	\$ 552
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 196	2,141	2,337	\$ (77)	\$ 402	325
Savings Deposits	1	16	17	6	(26)	(20)
Time Deposits	663	3,027	3,690	20	533	553
Short-term borrowings	73	255	328	(190)	931	741
Long-term borrowings	-	-	-	-	(514)	(514)
TOTAL INTEREST EXPENSE	\$ 933	\$ 5,439	6,372	\$ (241)	\$ 1,326	1,085
NET INTEREST INCOME	\$ 6,070	\$ (3,979)	\$ 2,091	\$ 32	\$ (565)	\$ (533)

## LOANS

The loan portfolio constitutes the major earning asset of the Company and, in the opinion of management, offers the best alternative for maximizing net interest margin. The Company's loan personnel have the authority to extend credit under guidelines established and approved by the Board of Directors. Any aggregate credit that exceeds the authority of the loan officer is forwarded to the Board's loan committee for approval. The loan committee is composed of certain directors, including the Chairman of the Board of Directors. All aggregate loans that exceed the loan committee's lending authority are presented to the full Board of Directors for ultimate approval or denial. The loan committee not only acts as an approval body to ensure consistent application of the Company's loan policy but also provides valuable insight through communication and pooling of knowledge, judgment, and experience of its members.

The Company has stated in its loan policy the following objectives for its loan portfolio:

- to make loans after sound and thorough credit analysis;
- to properly document all loans;
- to eliminate loans from the portfolio that are underpriced, high risk or difficult and costly to administer;
- to seek good relationships with the customer;
- to avoid undue concentrations of loans; and
- to keep non-accrual loans to a minimum by aggressive collection policies.

Loan demand in the Company's market improved after economic conditions began to show some improvement. Although the Company continues to face intense competition for available loans from other financial institutions and the current economic conditions have improved slightly, the Company was able, in 2018 and 2019, to increase the amount of loans outstanding. Additionally, the acquisition of Charter added a significant amount of loans to the Company's portfolio in 2019. The overall loan demand in the Company's operating markets has been robust in certain sectors. Commercial, financial and agricultural has seen the most growth with an increase of 25.3%, or \$77,353, in 2019, by 6.6%, or \$17,653, in 2018 and by 5.9%, or \$14,186, in 2017. Commercial, financial and agricultural loans are the largest segment of the loan portfolio and, by nature, bear a higher degree of risk. Management believes the lending practices, policies and procedures applicable to this loan category are adequate to manage any risk represented by the growth of this loan segment.

Real estate mortgage loans originated by the Company increased by 37.4%, or \$33,267 in 2019 and decreased by 7.5%, or \$7,177, in 2018, and by 1.9%, or \$1,888, in 2017 when compared to the prior years. The increase in mortgage loans in 2019 was mainly driven by the acquisition of Charter coupled with expansion to more metropolitan markets and the decrease in prior years reflects the weakness in some of the Company's local housing markets coupled with increased competition in the mortgage market.

Real estate construction loans increased by \$40,063, or 97.4% in 2019 to \$81,197 when compared to the \$41,134 at December 31, 2018 and by \$15,210, or 58.7% when compared to 2017. Real estate construction loans are usually short term in nature and are dependent on construction activity in the Company's service area. There was a large amount of demand for these types of loans in the Company's service area during 2019 coupled with the acquisition of Charter.

Consumer loans increased by \$2,054 or 14.6% in 2019 and decreased by \$1,969 or 12.3% in 2018, and \$3,476, or 17.9% in 2017, compared to the prior years. The Company believes that changes in consumer purchasing habits and the increase in loan sources have affected the growth of this segment of loans.

Table 5 – Loans Outstanding reflects outstanding balances by loan type for the past five years. Additional loan information is presented in Note 5, "Loans," to the Company's Consolidated Financial Statements included in this Annual Report.

TABLE 5 – LOANS OUTSTANDING  
(in thousands)

	AT DECEMBER 31,				
	2019	2018	2017	2016	2015
Commercial, financial and agricultural	\$357,789	\$285,420	\$267,767	\$253,581	\$266,464
Real estate - construction	81,197	41,134	25,923	23,793	33,133
Real estate - mortgage	122,014	88,747	95,925	97,812	104,046
Consumer	16,075	14,021	15,990	19,466	26,625
<b>TOTAL LOANS</b>	<b>\$577,075</b>	<b>\$429,322</b>	<b>\$405,605</b>	<b>\$394,652</b>	<b>\$430,268</b>

Table 6 – Loan Liquidity and Sensitivity to Changes in Interest Rates reflects the maturity schedule or repricing frequency of all loans. Also presented are fixed and variable rate loans maturing after one year.

TABLE 6 – LOAN LIQUIDITY

LOAN MATURITIES AT DECEMBER 31, 2019

	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	Total
Commercial, financial and agricultural	\$66,360	\$228,981	\$62,448	\$357,789
Real estate - construction	26,021	48,088	7,088	\$81,197
Real estate - mortgage	22,466	73,243	26,305	\$122,014
Consumer	5,973	9,167	935	\$16,075
<b>Total loans</b>	<b>\$120,820</b>	<b>\$359,479</b>	<b>\$96,776</b>	<b>\$577,075</b>

## SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$419,139	\$60,129
Variable rates	57,008	37,036
Total loans	<u>\$476,147</u>	<u>\$97,165</u>

Each loan the Company makes either has a stated maturity as to when the loan is to be repaid or is subject to an agreement between the Company and the customer governing its progressive reduction. The Company's policy is that every loan is to be repaid by its stated maturity and not carried as a continuing debt. Generally, the Company requires that principal reductions on a loan must have begun prior to the second renewal date of the loan.

## PROVISION FOR LOAN LOSSES AND ASSET QUALITY

The allowance for loan losses represents an amount that in management's judgment will be adequate to absorb estimated probable losses within the existing loan portfolio. Loans that management determines to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of specific loans and prior loss experience. Other factors considered by management include specific economic events, general economic conditions and trends, and loan portfolio mix and growth. The allowance for loan losses is subject to close regulatory review from the FDIC and the Mississippi Department of Banking and Consumer Finance and is also a factor in each agency's determination of the Company's capital adequacy. The estimation of losses in the Company's loan portfolio is susceptible to changes resulting from changes in the financial condition of individual borrowers and economic conditions in the Company's market area.

The allowance for loan losses is established through a provision for loan losses charged against net income. This expense is determined by a number of factors, including historical loan losses, assessment of specific credit weaknesses within the portfolio, assessment of the prevailing economic climate, and other factors that may affect the overall condition of the loan portfolio. Management utilized these factors to determine the provision for loan losses for each of 2017, 2018 and 2019. The ratio of net loans charged off to average loans was 0.03% in 2019, 0.00% in 2018 and 0.09% in 2017. Management evaluates the adequacy of the allowance for loan loss on a monthly basis and makes adjustments to the allowance based on this analysis.

The provision for loan losses in 2019 was an expense of \$573 compared to an expense of \$334 in 2018 and a reversal of expense of \$543 in 2017. The change in the provision for all three years was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. The Company uses a model that takes into account historical charge-offs and recoveries and applies that to certain loan segments of the Company's portfolio. At the end of 2019, the total allowance for loan losses was \$3,755, an amount that management believes to be sufficient to cover estimated probable losses in the loan portfolio.

Activity in the allowance for loan losses is reflected in Table 7 – Analysis of Allowance for Loan Losses. The Company’s policy is to charge-off loans when in management’s opinion the loan is deemed uncollectible. Even after it is charged off, however, the Company makes concerted efforts to maximize recovery of such loan.

**TABLE 7 – ANALYSIS OF ALLOWANCE FOR LOAN LOSSES**

(in thousands except for percentage amounts)

	2019	2018	2017	2016	2015
BALANCE AT BEGINNING OF YEAR	\$ 3,372	\$ 3,019	\$ 3,903	\$ 6,474	\$ 6,542
<b>LOANS CHARGED-OFF</b>					
Commercial, financial and agricultural	176	35	166	2,397	457
Real estate - construction	-	74	112	-	-
Real estate - mortgage	46	133	57	179	201
Consumer	138	146	102	65	164
<b>TOTAL CHARGE-OFFS</b>	<b>360</b>	<b>388</b>	<b>437</b>	<b>2,641</b>	<b>822</b>
<b>CHARGE-OFFS RECOVERED</b>					
Commercial, financial and agricultural	91	219	2	18	45
Real estate - construction	18	19	14	18	9
Real estate - mortgage	14	81	16	24	52
Consumer	47	88	64	75	91
<b>TOTAL RECOVERIES</b>	<b>170</b>	<b>407</b>	<b>96</b>	<b>135</b>	<b>197</b>
Net loans charged-off	190	(19)	341	2,506	625
Additions charged to operating expense	573	334	(543)	(65)	557
<b>BALANCE AT END OF YEAR</b>	<b>\$ 3,755</b>	<b>\$ 3,372</b>	<b>\$ 3,019</b>	<b>\$ 3,903</b>	<b>\$ 6,474</b>
Loans, net of unearned, at year end	\$ 577,067	\$ 429,277	\$ 406,605	\$ 394,051	\$ 429,582
Ratio of allowance to loans at year end	0.65%	0.79%	0.74%	0.99%	1.51%
Average loans - net of unearned	\$ 561,483	\$ 418,136	\$ 395,217	\$ 409,367	\$ 412,161
Ratio of net loans charged-off to average loans	0.03%	0.00%	0.09%	0.61%	0.15%



# ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

(in thousands)

	AT DECEMBER 31,				
	2019	2018	2017	2016	2015
Commercial, financial and agricultural	\$ 2,499	\$ 2,309	\$ 1,942	\$ 2,434	\$ 4,710
Real estate - construction	375	192	139	120	402
Real estate - mortgage	572	566	417	821	770
Consumer	309	305	521	528	592
Total	\$ 3,755	\$ 3,372	\$ 3,019	\$ 3,903	\$ 6,474

# COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2019	2018	2017	2016	2015
Commercial, financial and agricultural	62.00%	66.48%	66.02%	64.25%	61.93%
Real estate - construction	14.07%	9.58%	6.39%	6.03%	7.70%
Real estate - mortgage	21.14%	20.67%	23.65%	24.79%	24.18%
Consumer	2.79%	3.27%	3.94%	4.93%	6.19%
	100.00%	100.00%	100.00%	100.00%	100.00%

Loan balances outstanding, as illustrated in Table 5, increased in 2019 even though the Company maintained tight credit standards and the competition for loans was strong. All loan segments increased during 2019, primarily due to the acquisition of Charter coupled with solid organic growth. In 2018 as compared to 2017, commercial, financial and agricultural along with real estate construction loans increased and real estate mortgage and consumer loans decreased. The allowance for loan losses is allocated to the various categories based on the historical loss percentage for each segment of loan and any specific reserves that might be assigned to those loans.

Non-performing assets and the relative percentages of such assets to loan balances are presented in Table 8 – Non-performing Assets. Non-performing loans include non-accrual loans, loans delinquent 90 days or more based on contractual terms and troubled debt restructurings. Management classifies loans as non-accrual when it believes that collection of interest is doubtful. This typically occurs when payments are past due over 90 days, unless the loans are well secured and in the process of collection. Another measurement of asset quality is OREO, which represents properties acquired by the Company through foreclosure following loan defaults by customers. The percentage of OREO to total loans at December 31, 2019 was 0.62% compared to 0.80% in 2018. OREO increased in 2019 after decreasing in 2018 due to more foreclosures in 2019 partially offset by the sale of several parcels during 2019.

Loans on non-accrual status amounted to \$12,026 in 2019 as compared to \$9,839 in 2018 and \$7,582 in 2017. Interest income forgone on loans classified as non-accrual in 2019 was \$555 as compared to \$429 in 2018 and \$413 in 2017. Upon the classification of a loan as non-accrual, all interest accrued on the loan prior to the time it is classified as non-accrual is reversed

and interest accruals are suspended until such time that the loan is in compliance with its terms and deemed collectable.

TABLE 8 – NON-PERFORMING ASSETS  
(in thousands, except percentages)

	As of December 31,				
	2019	2018	2017	2016	2015
PRINCIPAL BALANCE					
Non-accrual	\$12,026	\$9,839	\$7,582	\$8,879	\$14,423
Accruing loans 90 days or more past due	274	73	807	206	76
Troubled debt restructurings	2,495	2,782	3,047	3,288	3,858
<b>TOTAL NON-PERFORMING LOANS</b>	<b>\$14,795</b>	<b>\$12,694</b>	<b>\$11,436</b>	<b>\$12,373</b>	<b>\$18,357</b>
Income on non-accrual loans not recorded	\$555	\$429	\$413	\$652	\$732
Non-performing as a percent of loans	2.56%	2.96%	2.82%	3.14%	4.26%
Other real estate owned	\$3,552	\$3,440	\$3,980	\$4,443	\$3,573
OREO as a percent of loans	0.62%	0.80%	0.98%	1.13%	0.83%
Allowance as a percent of non-performing loans	25.38%	26.56%	26.40%	31.54%	35.27%

ASC Subtopic 310-10, *Loan Impairments* outlines the guidance for evaluating impaired loans. These statements changed the methods of estimating the loan loss allowance for problem loans. In general, when management determines that principal and interest due under the contractual terms of a loan are not fully collectible, management must value the loan using discounted future expected cash flows. Management evaluates the Company's loans for impairment under ASC Subtopic 310-10. The balances of impaired (including non-accruals) loans for the years 2019, 2018 and 2017 were \$11,135, \$10,306 and \$4,396, respectively.

This table details the impaired loans by category for years ending 2019, 2018 and 2017.

	AT DECEMBER 31,		
	2019	2018	2017
Commercial, financial and agricultural	\$ 10,296	\$ 9,153	\$ 4,093
Real estate - mortgage	839	1,152	303
Total loans	\$ 11,135	\$ 10,305	\$ 4,396

Management monitors any loans that are classified under FDIC regulations as loss, doubtful or substandard, even if management has not classified the loans as non-performing or impaired. In addition to loans classified for regulatory purposes, management also designates certain loans for internal monitoring purposes in a “watch” category. Loans may be placed on management’s watch list as a result of delinquent status, management’s concern about the borrower’s financial condition or the value of the collateral securing the loan, a substandard classification during regulatory examinations, or simply as a result of management’s desire to monitor more closely a borrower’s financial condition and performance. Watch category loans may include loans that are still performing and accruing interest and may be current under the terms of the loan agreement but which management has a significant degree of concern about the borrowers’ ability to continue to perform according to the terms of the loan agreement. Watch category loans may also include loans, which, although adequately secured and performing, reflect a past delinquency problem or unfavorable financial trends exhibited by the borrower. Loss exposure on these loans is typically evaluated based primarily upon the estimated liquidation value of the collateral securing the loan.

At December 31, 2019, loans totaling \$30,756 were included on the Company’s watch list compared to \$26,252 at December 31, 2018. The majority of these loans are real estate loans that, although adequately collateralized, have experienced frequent delinquencies in scheduled payments. The inclusion of loans on this list does not indicate a greater risk of loss; rather it indicates that the loan possesses one of the several characteristics described above warranting increased oversight by management.

## SECURITIES

At December 31, 2019, the Company classified all of its securities as AFS. AFS securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. The Company does not hold any securities classified as held to maturity or held for trading purposes.

Table 9 – Securities and Securities Maturity Schedule summarizes the amortized cost of securities from 2017 through 2019 and the maturity distribution at December 31, 2019, by classification.

TABLE 9 – SECURITIES

(in thousands)

	2019	2018	2017
SECURITIES AVAILABLE-FOR-SALE			
U. S. Government Agencies	\$ 97,400	\$ 99,366	\$ 180,648
Mortgage Backed Securities	308,310	259,742	213,707
State, County and Municipal Obligations	59,724	105,591	118,786
Other Securities	-	-	2,865
TOTAL SECURITIES AVAILABLE-FOR-SALE	\$ 465,434	\$ 464,699	\$ 516,006

## SECURITIES MATURITY SCHEDULE

	1 year or less		1 to 5 years		5 to 10 years		over 10 years	
	Actual Balance	Average Yield	Actual Balance	Average Yield	Actual Balance	Average Yield	Actual Balance	Average Yield
AVAILABLE-FOR-SALE								
U. S. Government Agencies <sup>(1)</sup>	\$ -	0.00%	\$ 88,814	1.86%	\$ 8,586	2.32%	\$ -	0.00%
Mortgage Backed Securities	-	0.00%	4,849	2.19%	-	0.00%	303,461	2.31%
State, County and Municipal <sup>(2)</sup>	345	3.13%	1,106	1.82%	10,092	2.93%	48,181	2.67%
TOTAL AVAILABLE-FOR-SALE	\$ 345	3.13%	\$ 94,769	1.88%	\$ 18,678	2.65%	\$ 351,642	2.36%

<sup>(1)</sup> The maturities for the mortgage backed securities included in this line item are based on final maturity.

<sup>(2)</sup> Average yields were calculated on tax equivalent basis using a marginal federal income tax rate of 21% and a state tax rate of 5%.

The change in the carrying value of the AFS portfolio is due to market value fluctuations resulting from the changing interest rate environment during 2018. This change is not used in the Tier 1 capital calculation.

As detailed in Table 9, the security portfolio increased \$735 or 0.2% in 2019, decreased \$51,307 or 9.9% in 2018 and increased \$2,800 or 0.5% in 2017. The Company strives to maximize the yields on its portfolio while balancing pledging needs and managing risk. The Company seeks to invest most of its funds not needed for loan demand or the reduction of other borrowings in higher yielding securities and not in the lower yielding federal funds sold.

## DEPOSITS

The Company offers a wide variety of deposit services to individual and commercial customers, such as non-interest-bearing and interest-bearing checking accounts, savings accounts, money market deposit accounts and time deposits. The deposit base is the Company's major funding source for earning assets. Time deposits increased in 2019 and 2018 due to an

increase in rates paid by the Company caused by competition in our operating markets. During this time span, we continue to see an increase in other deposit segments as well, except for Interest-bearing demand in 2018.

A three-year schedule of average deposits by type and maturities of time deposits greater than \$250 is presented in Table 10 – Deposit Information.

**TABLE 10 – DEPOSIT INFORMATION**  
(in thousands, except percentages)

	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$192,672		\$164,682		\$150,689	
Interest-bearing demand	381,635	0.91%	325,192	0.35%	347,260	0.23%
Savings	79,886	0.16%	79,281	0.14%	74,923	0.14%
Time deposits	274,597	1.90%	191,836	0.80%	189,359	0.52%
	\$928,790	1.20%	\$760,991	0.47%	\$762,231	0.31%

**MATURITY RANGES OF TIME DEPOSITS  
OF \$250 OR MORE**

AS OF DECEMBER 31, 2019

3 months or less	\$22,392
3 through 12 months	16,203
1 year to 3 years	20,856
over 3 years	9,897
	<u>\$69,348</u>

The Company, in its normal course of business, will acquire large time deposits, generally from public entities, with a variety of maturities. These funds are acquired on a bid basis and are considered to be part of the deposit base of the Company.

**BORROWINGS**

Aside from the core deposit base and large denomination time deposits mentioned above, the remaining funding sources utilized by the Company include short-term and long-term borrowings. Short-term borrowings consist of Federal Funds Purchased from other financial institutions on an overnight basis, short-term advances from the FHLB and securities sold under agreement to repurchase. Long-term borrowings are advances from the FHLB with an initial maturity of greater than one year.

**TABLE 11 - SHORT-TERM BORROWINGS**  
(in thousands)

	As of December 31,		
	2019	2018	2017
Short-term borrowings			
Year-end balance	\$ 170,410	\$ 107,966	\$ 153,998
Weighted average rate	1.05%	1.20%	0.75%
Maximum month-end balance	\$ 181,347	\$ 140,115	\$ 201,427
Year to date average balance	\$ 121,951	\$ 116,787	\$ 130,248
Weighted average rate	1.62%	1.41%	0.75%

The Company borrows funds for short periods from the FHLB as an alternative to Federal Funds Purchased. The Company foresees short-term borrowings to be a continued source of liquidity and likely will continue to use these borrowings as a method to fund short-term needs. At December 31, 2019, the Company had the capacity to borrow up to \$222,592 from the FHLB and other financial institutions in the form of Federal Funds Purchased. The Company generally will use these types of borrowings if loan demand is greater than the growth in deposits. At December 31, 2019 and 2018, the Company had borrowed \$-0- from the FHLB and \$-0- in Federal Funds Purchased. In 2019, the balances in Securities Sold Under Agreement to Repurchase increased \$62,444, or 57.8% to \$170,410. In 2018, these balances decreased to \$107,966, a decrease of \$46,032, or 29.9%.

At the end of 2019, the Company had long-term debt in the amount of \$-0- to the FHLB for advances and \$6 payable to the State of Mississippi for advances under the Mississippi Agribusiness Enterprise Loan Program. This program provides interest-free loans to banks to fund loans to qualifying farmers. Farmers that qualify for the program receive 20% of their loan at zero interest. When the loan is repaid, the State of Mississippi receives 20% of the principal payment, which is equal to the amount advanced by the state, and the Company retains the balance of the principal payment.

The remaining maturity schedule of the long-term debt at December 31, 2019 is listed below.

	(in thousands)
	2019
Less than one year	\$ -
One year to three years	6
Over three years	-
Total long-term borrowings	<u>\$ 6</u>



## NON-INTEREST INCOME AND EXPENSE

Table 12 - Non-Interest Income and Expense illustrates the Company's non-interest income and expense from 2017 through 2019 and percentage changes between such years.

TABLE 12 - NON-INTEREST INCOME & EXPENSE

	(in thousands)				
	% CHANGE		% CHANGE		
	2019	FROM '18	2018	FROM '17	2017
<b>NON-INTEREST INCOME</b>					
Service charges on deposit accounts	\$ 4,413	-3.27%	\$ 4,562	7.62%	\$ 4,239
Other operating income	5,335	32.12%	4,038	-0.49%	4,058
<b>TOTAL NON-INTEREST INCOME</b>	<b>\$ 9,748</b>	<b>13.35%</b>	<b>\$ 8,600</b>	<b>3.65%</b>	<b>\$ 8,297</b>
<b>NON-INTEREST EXPENSE</b>					
Salaries and employee benefits	\$ 14,883	2.43%	\$ 14,530	-1.64%	\$ 14,772
Occupancy expense, including equipment	5,245	-8.46%	5,730	6.41%	5,385
Other operating expense	7,430	0.35%	7,404	-8.25%	8,070
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>\$ 27,558</b>	<b>-0.38%</b>	<b>\$ 27,664</b>	<b>-1.99%</b>	<b>\$ 28,227</b>

Non-interest income typically consists of service charges on checking accounts, including debit card fees, and other financial services. With continued pressure on interest rates, the Company has sought to increase its non-interest income through the expansion of fee income and the development of new services. Currently, the Company's main sources of non-interest income are service charges on checking accounts, safe deposit box rentals, credit life insurance premiums and title insurance service fees.

During 2019 as compared to 2018, non-interest income increased by \$1,148, or 13.4%. An increase in other operating income and net gains on sales of securities was partially offset by a decrease in other income and net gains on sales of securities.

During 2018 as compared to 2017, non-interest income increased by \$303, or 3.7%. An increase in service charges on deposit accounts and other service charges and fees was partially offset by a decrease in other income and net gains on sales of securities.

Non-interest expenses consist of salaries and benefits, occupancy expense and other overhead expenses incurred by the Company in the transaction of its business. In 2019 as compared to 2018, non-interest expense decreased by \$106, or 0.4%, to \$27,558. Included in this decrease was a decrease in occupancy expense of \$485 or 8.5% partially offset by an increase in salaries and benefits in the amount of \$353, or 2.4%, and other expense in the amount of \$26, or 0.4%. The decrease in occupancy expense was primarily due to a refund of excess prepaid postage and continued cost containment focus throughout the Company. The increase in salaries and benefits was due to the Charter acquisition.

In 2018 as compared to 2017 non-interest expense decreased by \$562, or 2.0%, to \$27,665. Included in this decrease was a decrease in salaries and benefits in the amount of \$242, or 1.6%, occupancy expense in the amount of \$145, or 6.7%, other expense in the amount of

\$666, or 8.3%, partially offset by an increase in equipment expense in the amount of \$490, or 15.3%. The increase in equipment expense was primarily due to strategic investments in technology over the past few years. The decrease in other expense was in large part due to decreased loan collection expense and other losses attributable to writedowns on other real estate.

In 2019, the Company's efficiency ratio was 77.88%, compared to 75.99% in 2018 and 76.35% in 2017. The efficiency ratio is calculated to measure the cost of generating one dollar of revenue. The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income, on a fully tax equivalent basis, and non-interest income.

## **INCOME TAXES**

The Company records a provision for income taxes currently payable, along with a provision for deferred taxes to be realized in the future. Such deferred taxes arise from differences in timing of certain items for financial statement reporting rather than income tax reporting. The deferred tax amount of \$3,684 is considered realizable without the use of extraordinary tax planning strategies.

The Company's effective tax rate was 18.66%, 11.04% and 52.36% in 2019, 2018 and 2017, respectively. The major difference between the effective tax rate applied to the Company's financial statement income and the federal statutory rate of 21%, 21% and 34% in 2019, 2018 and 2017, respectively, is interest on tax-exempt securities and loans and the impact on deferred tax assets due to tax reform. Further tax information is disclosed in Note 13, "Income Taxes" to the Company's Consolidated Financial Statements included in this Annual Report.

## **LIQUIDITY AND RATE SENSITIVITY**

Liquidity management is the process by which the Company ensures that adequate liquid funds are available to meet its financial commitments on a timely basis. These commitments include honoring withdrawals by depositors, funding credit obligations to borrowers, servicing long-term obligations, making shareholder dividend payments, paying operating expenses, funding capital expenditures and maintaining reserve requirements.

The Company's predominant sources of funding include: core deposits (consisting of both commercial and individual deposits); proceeds from maturities of securities; repayments of loan principal and interest; commercial repurchase agreements; Federal Funds Purchased; and short-term and long-term borrowing from the FHLB. In 2019 as compared to 2018, the Company experienced an increase in deposits and repurchase agreements in excess of the increase in loans outstanding. The increase in investment securities is mainly the result of the desire to invest excess funds outside of new loans. The Company relies upon non-core sources of funding, such as commercial repurchase agreements, Federal Funds Purchased and short and long-term borrowings from the FHLB, when deposit growth is not adequate to meet its short-term needs. While the strategy of using these wholesale funding sources is adequate to cover liquidity deficiencies in the short term, the Company's goal is to increase core deposits as a source of long term funding. Management does not intend to rely on borrowings from the FHLB

as the first choice as a source of funds but prefers to increase core deposits through increased competition for available deposits. Management believes that core deposits will increase by offering competitive rates and superior service to the Bank's customers.

The Company had no FHLB advances outstanding at year end as part of our strategy to rely more on core deposits than wholesale funding. However, the Company will continue to use advances if they are needed to maintain the Company's liquidity position.

The deposit base is diversified between individual and commercial accounts, which the Company believes helps it avoid dependence on large concentrations of funds. The Company does not currently solicit certificates of deposit from brokers. The primary sources of liquidity on the asset side of the balance sheet are securities classified as AFS. All of the \$464,383 in the investment securities portfolio is classified in the AFS category, and any securities not pledged are available to be sold, should liquidity needs arise. Management, through its Asset Liability Committee ("ALCO"), and the Board review the Company's liquidity position on a monthly basis. At December 31, 2019, both the ALCO and the Board of Directors determined that the Company's liquidity position was adequate.

Table 13 - Funding Uses and Sources details the main components of cash flows for 2019 and 2018.

TABLE 13 - FUNDING USES AND SOURCES  
(in thousands)

	2019			2018		
	Average Balance	Increase/(decrease) Amount	Percent	Average Balance	Increase/(decrease) Amount	Percent
<b><u>FUNDING USES</u></b>						
Loans, net of unearned income	\$ 560,888	\$ 142,752	34.14%	\$ 418,136	\$ 22,919	5.80%
Taxable securities	388,490	12,098	3.21%	376,392	(8,329)	-2.16%
Tax-exempt securities	78,843	(29,063)	-26.93%	107,906	(18,506)	-14.64%
Federal funds sold and other	50,666	41,413	447.56%	9,253	(15,746)	-62.99%
<b>TOTAL USES</b>	<b>\$1,078,887</b>	<b>\$ 167,200</b>	<b>18.34%</b>	<b>\$ 911,687</b>	<b>\$ (19,662)</b>	<b>-2.11%</b>
<b><u>FUNDING SOURCES</u></b>						
Noninterest-bearing deposits	\$ 192,672	\$ 27,990	17.00%	\$ 164,682	\$ 13,993	9.29%
Interest-bearing demand and savings deposits	461,521	57,048	14.10%	404,473	(18,462)	-4.37%
Time deposits	274,597	82,761	43.14%	191,836	2,477	1.31%
Short-term borrowings	1,483	(19,996)	-93.10%	21,479	19,167	829.02%
Commercial repo	124,344	29,036	30.47%	95,308	(32,629)	-25.50%
Long-term debt	-	-	-	-	(20,029)	-100.00%
<b>TOTAL SOURCES</b>	<b>\$1,054,617</b>	<b>\$ 176,839</b>	<b>20.15%</b>	<b>\$ 877,778</b>	<b>\$ (35,483)</b>	<b>-3.89%</b>

The Company's liquidity depends substantially on the ability of the Bank to transfer funds to the Company in the form of dividends. The information under the heading "Market Price and Dividend Information" in this Annual Report discusses federal and state statutory and regulatory restrictions on the ability of the Bank to transfer funds to the Company in the form of dividends.

## **CAPITAL RESOURCES**

The Company and Bank are subject to various regulatory capital guidelines as required by federal and state banking agencies. These guidelines define the various components of core capital and assign risk weights to various categories of assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991, as amended (“FDICIA”), required federal regulatory agencies to define capital tiers. These tiers are: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under FDICIA, a “well-capitalized” institution must achieve a Tier 1 risk-based capital ratio of at least 6.00%, a total capital ratio of at least 10.00%, a leverage ratio of at least 5.00% and not be under a capital directive order. These ratios generally measure the percentage of a bank’s capital to all or certain categories of assets. Failure to meet capital requirements can initiate regulatory action that could have a direct material effect on the Company’s financial statements. If a bank is only adequately capitalized, regulatory approval is required before the bank may accept brokered deposits. If undercapitalized, capital distributions, asset growth, and expansion are limited, and the institution is required to submit a capital restoration plan.

During 2019 as compared to 2018, total capital decreased due to the purchase of Charter, in which the consideration paid was 80% stock and 20% cash partially offset by earnings in excess of dividends paid.

Management believes the Company and the Bank meet all the capital requirements to be well-capitalized under the guidelines established by FDICIA as of December 31, 2019, as noted below in Table 14 - Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

**TABLE 14 – CAPITAL RATIOS**  
(in thousands, except percentage amounts)

	At December 31,		
	2019	2018	2017
Tier 1 capital			
Shareholders' equity	\$ 112,800	\$ 83,866	\$ 88,452
Less: Intangibles	(13,856)	(3,150)	(3,150)
Less: DTA related to NOLs	(1,000)	-	-
Add/less: Unrealized loss/(gain) on securities	789	14,975	8,225
<b>TOTAL TIER 1 CAPITAL</b>	<b>\$ 98,733</b>	<b>\$ 95,691</b>	<b>\$ 93,527</b>
Total capital			
Tier 1 capital	\$ 98,733	\$ 95,691	\$ 93,527
Allowable allowance for loan losses	3,755	3,372	3,019
<b>TOTAL CAPITAL</b>	<b>\$ 102,488</b>	<b>\$ 99,063</b>	<b>\$ 96,546</b>
<b>RISK WEIGHTED ASSETS</b>	<b>\$ 712,154</b>	<b>\$ 549,828</b>	<b>\$ 521,708</b>
<b>AVERAGE ASSETS (FOURTH QUARTER)</b>	<b>\$ 1,185,397</b>	<b>\$ 963,820</b>	<b>\$ 1,020,107</b>
<b>TIER 1 LEVERAGE RATIO</b>	<b>8.33%</b>	<b>9.93%</b>	<b>9.17%</b>
<b>COMMON EQUITY TIER 1 CAPITAL RATIO</b>	<b>8.33%</b>	<b>9.93%</b>	<b>9.17%</b>
<b>TIER 1 RISK-BASED CAPITAL RATIO</b>	<b>13.86%</b>	<b>17.40%</b>	<b>17.93%</b>
<b>TOTAL RISK-BASED CAPITAL RATIO</b>	<b>14.39%</b>	<b>18.02%</b>	<b>18.51%</b>

Management's strategy with respect to capital levels is to maintain a sufficient amount of capital to allow the Company to respond to growth and acquisition opportunities in the Bank's service area. Over the past three years, the Company has been able to increase the amount of its capital, through retention of earnings, while still maintaining the dividend payout ratio to approximately 70% of earnings per share. The Company does not currently have any commitments for capital expenditures that would require the Company to raise additional capital by means other than retained earnings. The Company does not plan to change this strategy unless needed to support future acquisition activity.

## **OFF-BALANCE SHEET ARRANGEMENTS**

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of its customers. These commitments and contingent liabilities include commitments to extend credit and issue standby letters of credit. These off-balance sheet arrangements are further detailed in Note 16, "Off-Balance Sheet

Financial Instruments, Commitments and Contingencies and Concentrations of Risks,” in the notes to the Company’s Consolidated Financial Statements included in this Annual Report.

## CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual obligations, excluding deposits and securities sold under agreement to repurchase, of the Company as of December 31, 2019.

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1-3 Years	3 - 5 Years	Over 5 Years
Operating Leases	\$ 801	\$ 348	\$ 451	\$ 2	\$ -
Other Long-term Liabilities	6	-	6	-	-
Total	<u>\$ 807</u>	<u>\$ 348</u>	<u>\$ 457</u>	<u>\$ 2</u>	<u>\$ -</u>

Long-term debt obligations represent borrowings from the FHLB that have an original maturity in excess of one year. Operating leases are primarily for the lease of branches, ATM machines and other necessary equipment. The equipment leases are for various terms. The other long-term liabilities are those obligations of the Company under the Agribusiness Enterprise Loan Program of the State of Mississippi.



## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***OVERVIEW***

The definition of market risk is the possibility of loss that could result from adverse changes in market prices or interest rates. The Company has taken steps to assess the amount of risk that is associated with its asset and liability structure. The Company measures the potential risk on a regular basis and makes changes to its strategies to manage these risks. The Board of Directors reviews important policy limits each month, with a more detailed risk analysis completed on a quarterly basis. These measurement tools are important in allowing the Company to manage market risk and to plan effective strategies to respond to any adverse changes in risk. The Company does not participate in some of the financial instruments that are inherently subject to substantial market risk. All of the financial instruments entered into by the Company are for purposes other than trading. All information presented in this report are denominated in U.S. dollars.

### ***MARKET/INTEREST RATE RISK MANAGEMENT***

Interest rate risk is the primary market risk that management must address. Interest rate risk is the exposure of Company earnings and capital to changes in interest rates. All financial institutions assume interest rate risk as an integral part of normal operations.

The primary purpose in managing interest rate risk is to effectively invest capital and preserve the value created by the core banking business of the Company. The Company utilizes an investment portfolio to manage the interest rate risk naturally created through its business activities. The process of managing interest rate risk generally involves both reducing the exposure of the Company's net interest margin to swings in interest rates and concurrently ensuring that there is sufficient capital and liquidity to support balance sheet growth. The Company uses a quarterly interest rate risk report to evaluate its exposure to interest rate risk, project earnings and manage the composition of the balance sheet and its growth.

In addition to the quarterly interest rate risk report, the Company employs a number of tools to measure interest rate risk. One tool is static gap analysis, which matches assets with specified maturities to liabilities with corresponding maturities. Although management believes that this does not provide a complete picture of the Company's exposure to interest rate risk, it does highlight significant short-term repricing volume mismatches. The following table presents the Company's rate sensitivity static gap analysis at December 31, 2019 (\$ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	\$ 193,301	\$ 180,773
Total rate sensitive liabilities	265,622	92,671
Net gap	\$ (72,321)	\$ 88,102

The analysis shows a negative gap position over the next three-month period, which indicates that the Company would benefit somewhat from a decrease in market interest rates in the very short term. Although rate increases would be detrimental to the interest rate risk of the Company, management believes there is adequate flexibility to alter the overall rate sensitivity structure as necessary to minimize exposure to these changes.

Management believes that static gap analysis does not fully capture the impact of interest rate movements on interest sensitive assets and liabilities. Thus, the Company also measures interest rate risk by analyzing interest rate sensitivity and the rate sensitivity gap. Table 15 - Interest Rate Sensitivity provides additional information about the financial instruments that are sensitive to changes in interest rates. This tabular disclosure is limited by its failure to depict accurately the effect on assumptions of significant changes in the economy or interest rates or changes in management's expectations or intentions relating to the Company's financial statements. The information in the interest rate sensitivity table below reflects contractual interest rate pricing dates and contractual maturity dates. For indeterminate maturity deposit products (money market, NOW and savings accounts), the tables present principal cash flows in the shortest term. Although these deposits may not reprice within this time frame, the depositors of such funds have the ability to reprice. Weighted average floating rates are based on the rate for that product as of December 31, 2019 and December 31, 2018.

TABLE 15 - INTEREST RATE SENSITIVITY  
AS OF DECEMBER 31, 2019  
(in thousands)

	2020	2021	2022	2023	2024	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$90,909	\$85,660	\$48,416	\$110,943	\$83,211	\$60,129	\$479,268	\$475,595
Average Int Rate	4.95%	4.77%	4.87%	5.00%	5.25%	4.33%	4.90%	
Floating Rate	\$25,758	\$14,582	\$3,049	\$3,274	\$10,345	\$37,036	\$94,044	\$94,044
Average Int Rate	5.30%	3.99%	4.97%	4.90%	4.91%	5.47%	5.10%	
Investment securities								
Fixed Rate	\$345	\$10,000	\$53,481	\$25,566	\$5,722	\$370,320	\$465,434	\$464,383
Average Int Rate	3.13%	1.75%	1.92%	1.80%	2.08%	2.41%	2.30%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate	\$60,157						\$60,157	\$60,157
Average Int Rate	1.58%						1.58%	
Interest-bearing deposits								
Fixed Rate	\$591,785	\$59,641	\$27,709	\$15,912	\$15,279		\$710,326	\$710,195
Average Int Rate	0.93%	1.99%	2.61%	2.37%	2.74%		1.16%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate								
Average Int Rate								
Floating Rate	\$170,410						\$170,410	\$170,410
Average Int Rate	1.10%						1.10%	

## AS OF DECEMBER 31, 2018

(in thousands)

	2019	2020	2021	2022	2023	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$81,808	\$54,416	\$70,950	\$32,780	\$83,478	\$34,948	\$358,380	\$353,467
Average Int Rate	4.89%	4.80%	4.49%	4.72%	4.96%	3.58%	4.67%	
Floating Rate	\$6,408	\$18,742	\$8,564	\$589	\$1,210	\$32,012	\$67,525	\$67,525
Average Int Rate	5.54%	5.84%	4.99%	6.50%	6.05%	5.78%	5.68%	
Investment securities								
Fixed Rate	\$1,875	\$2,440	\$11,648	\$56,074	\$26,738	\$365,924	\$464,699	\$444,746
Average Int Rate	4.28%	3.55%	2.07%	1.97%	1.90%	2.52%	2.42%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate	\$8,080						\$8,080	\$8,080
Average Int Rate	1.69%						1.69%	
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$503,446	\$36,890	\$28,376	\$2,865	\$14,615		\$586,192	\$585,433
Average Int Rate	0.55%	1.41%	2.88%	2.23%	2.75%		0.78%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate								
Average Int Rate								
Floating Rate	\$107,966						\$107,966	\$107,966
Average Int Rate	1.20%						1.20%	

Rate sensitivity gap analysis is another tool management uses to measure interest rate risk. The rate sensitivity gap is the difference between the repricing of interest-earning assets and the repricing of interest-bearing liabilities within certain defined time frames. The Company's interest rate sensitivity position is influenced by the distribution of interest-earning assets and interest-bearing liabilities among the maturity categories. Table 16 - Rate Sensitivity Gap reflects interest-earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2018. Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 16 - RATE SENSITIVITY GAP AT DECEMBER 31, 2019  
(in thousands, except percentage amounts)

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
<b>INTEREST EARNING ASSETS</b>					
Loans	\$ 83,881	\$ 103,548	\$ 346,914	\$ 28,410	\$ 562,753
Investment securities	49,563	77,225	180,110	162,491	469,389
Interest Bearing Due From Bank Accounts	58,257	-	-	-	58,257
Federal funds sold	1,600	-	-	-	1,600
<b>TOTAL INTEREST BEARING ASSETS</b>	<b>\$ 193,301</b>	<b>\$ 180,773</b>	<b>\$ 527,024</b>	<b>\$ 190,901</b>	<b>\$ 1,091,999</b>
<b>INTEREST BEARING LIABILITIES</b>					
Interest bearing demand deposits	\$ 32,616	\$ 20,161	\$ 107,525	\$ 26,881	\$ 187,183
Savings and Money Market deposits	150,845	-	155,369	147,943	454,157
Time deposits	65,120	72,510	118,410	-	256,040
Short term borrowings	17,041	-	102,247	51,123	170,411
Long term borrowings	-	-	-	-	-
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>\$ 265,622</b>	<b>\$ 92,671</b>	<b>\$ 483,551</b>	<b>\$ 225,947</b>	<b>\$ 1,067,791</b>
Rate sensitive gap	\$ (72,321)	\$ 88,102	\$ 43,473	\$ (35,046)	\$ 24,208
Rate sensitive cumulative gap	(72,321)	15,781	59,254	24,208	-
Cumulative gap as a percentage of total earning assets	-6.62%	1.45%	5.43%	2.22%	

The purpose of the above table is to measure interest rate risk utilizing the repricing intervals of interest sensitive assets and liabilities. Rate sensitive gaps constantly change as funds are acquired and invested and as rates change. Rising interest rates are likely to increase net interest income in a positive gap position while falling interest rates are beneficial in a negative gap position.

The above rate sensitivity analysis places interest-bearing demand and savings deposits in the shortest maturity category because these liabilities do not have defined maturities. If these deposits were placed in a maturity distribution representative of the Company's deposit base history, the shortfall of the negative rate sensitive gap position would be reduced in the 1-to-90 day time frame. It is the goal of the Company to achieve a cumulative gap ratio of plus or minus 15% for all periods under one year, with maximum acceptable limits of plus or minus 20%. Quarterly, management discusses with the ALCO and the board of directors the gap position in relation to the established goals, highlights any reasons for variances from the goals and suggests changes to better align the Company's position with the established goals. When reviewing the Company's position, impacting factors and suggested changes, the board of directors also considers other corporate objectives, including increasing core deposits and increasing profitability, before implementing changes intended to align the Company's position with the established goals. While the board of directors continues to closely monitor the Company's

negative gap position, at this time, management does not anticipate making any significant changes to the Company's operating practices in order to mitigate the negative gap position.

The rate sensitivity gap table illustrates that the Company had a large negative cumulative gap position for the 1 to 90-day period as of December 31, 2019. This negative gap position was mainly due to: (1) a large amount of investment securities that have call dates within that period; (2) a significant amount of non-maturity deposits classified within that period; (3) approximately 25.4% of certificates of deposit maturing during that period; and (4) 82.8% of the Company's loans maturing after that period.

The interest rate sensitivity and rate sensitivity gap tables, taken together, indicate that the Company to be in an asset sensitive position when evaluating the maturities of interest-bearing items. Thus, an increase in the interest rate environment would enhance earnings, while a decrease in interest rates would have the opposite effect on the Company's earnings. The Company has attempted to mitigate the impact of its interest rate position by increasing the amount of its variable rate loans and also by structuring deposit rates to entice customers to lengthen the maturities of their time deposits. The effect of any changes in interest rates on the Company would be mitigated by the fact that interest-bearing demand and savings deposits may not be immediately affected by changes in general interest rates.

Short term interest rates remained historically low in 2017, but started increasing in 2017 and all of 2018 but then starting decreasing in the second half of 2019 in connection with the target Federal Funds rate by the Federal Reserve Bank. The movement in the short term interest rates impact the Company's decisions in regards to pricing the Company's products and services. The short term interest rates have had impact on the Company's earnings as we positioned our balance sheet for rising rates in 2018 and that was halted in mid-2019. Therefore, this caused an increase in our deposit costs without the corresponding increase in earning asset yields. The Company is focused on positioning the balance sheet to remain more neutral to interest rates during these uncertain times. In 2018, the Company was significantly liability sensitive and has been able to turn the balance sheet to asset sensitive over foreseeable future with a focus on getting closer to neutral through investing the Company's excess funds into longer-term loans and investment securities. The Company's net interest margin in 2019 was 2.77% and in 2018 was 3.05% due to the aforementioned facts.



## Quarterly Financial Trends

(in thousands, except per share amounts)

<b>2019</b>				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$ 8,383	\$ 8,651	\$ 8,444	\$ 9,883
Interest Expense	2,174	2,444	2,525	2,578
Net Interest Income	6,209	6,207	5,919	7,305
Provision for Loan Losses	195	265	12	101
Non-interest Income	2,047	2,072	2,506	3,122
Non-interest Expense	6,639	6,323	6,868	7,728
Income Taxes	195	320	212	627
Net Income	\$ 1,227	\$ 1,371	\$ 1,333	\$ 1,971
Per common share:				
Basic	\$ 0.25	\$ 0.28	\$ 0.27	\$ 0.35
Diluted	\$ 0.25	\$ 0.28	\$ 0.27	\$ 0.35
Cash Dividends	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24

<b>2018</b>				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$ 7,600	\$ 7,778	\$ 7,888	\$ 8,093
Interest Expense	795	826	1,169	1,669
Net Interest Income	6,805	6,952	6,719	6,424
Provision for Loan Losses	(237)	89	289	193
Non-interest Income	2,100	2,078	2,221	2,200
Non-interest Expense	7,048	6,946	6,895	6,776
Income Taxes	322	306	260	(60)
Net Income	\$ 1,772	\$ 1,689	\$ 1,496	\$ 1,715
Per common share:				
Basic	\$ 0.36	\$ 0.35	\$ 0.31	\$ 0.35
Diluted	\$ 0.36	\$ 0.35	\$ 0.31	\$ 0.35
Cash Dividends	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24

Amounts of income tax expense recorded during the fourth quarter of 2017 include a \$2,559 charge to income tax expense for the revaluation of the net deferred tax asset as a result of the Tax Cut and Jobs Act. The reduction of income tax expense in the fourth quarter of 2018 is to adjust income taxes to the actual annual effective rate.

## Market Price and Dividend Information

### **MARKET PRICE INFORMATION**

The Company's common stock trades on the NASDAQ Global Market ("NASDAQ") under the symbol "CIZN". On March 3, 2020, the common stock's closing price on NASDAQ was \$20.56.

On March 3, 2020, shares of the Company's common stock were held of record by approximately 490 shareholders.

### **DIVIDENDS**

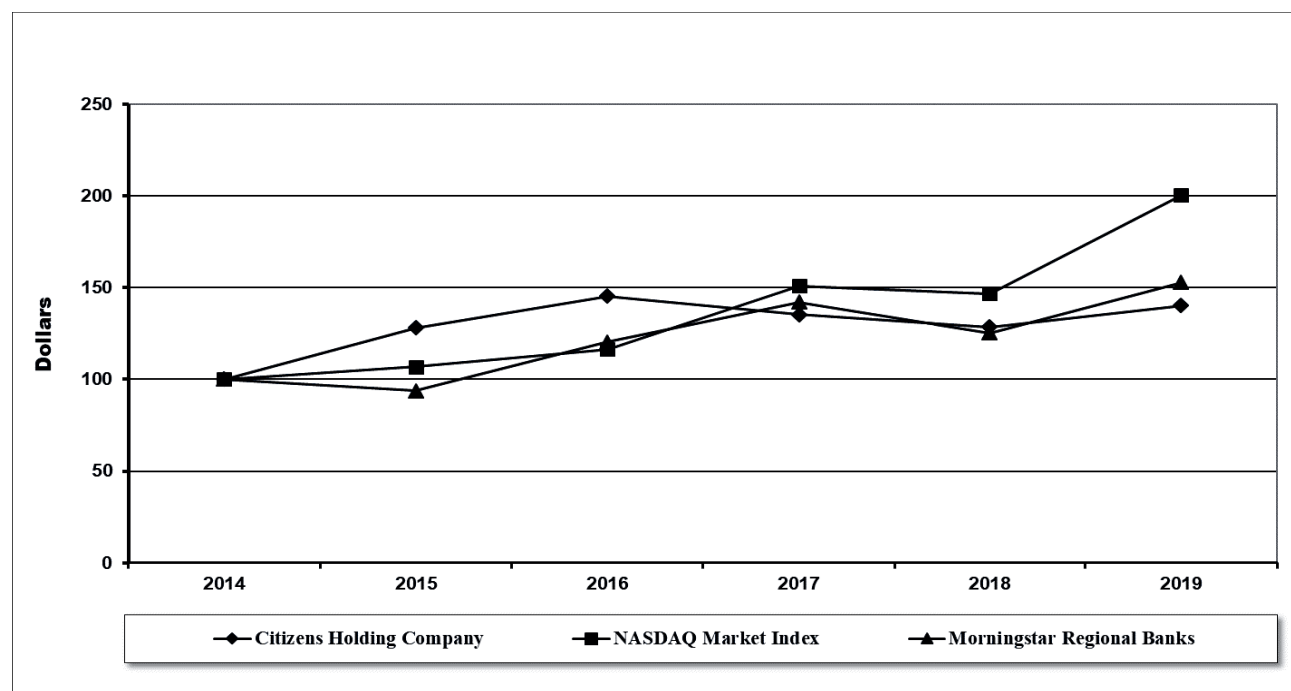
Dividends totaled \$0.96 per share for 2019 and 2018.

If funds are available, the Board of Directors of the Company typically declares dividends on a quarterly basis in March, June, September and December with payment following at the end of the month in which the dividend was declared. Funds for the payment by the Company of cash dividends are obtained from dividends, loans or advances received by the Company from the Bank. Accordingly, the declaration and payment of dividends by the Company depend upon the Bank's earnings and financial condition, general economic conditions, compliance with regulatory requirements, and other factors. The Bank must also receive the approval of the Mississippi Department of Banking and Consumer Finance prior to the payment of a dividend.

## STOCK PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's common stock to the NASDAQ Composite Index and the Morningstar Regional Bank index (a peer group of other regional bank holding companies) for the Company's reporting period. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 at December 31, 2014 and that all dividends were reinvested.

**Performance Graph**  
**December 31, 2014 - December 31, 2019**



	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Citizens Holding Company	100.00	128.03	145.40	135.29	128.51	140.28
NASDAQ Market Index	100.00	106.96	116.45	150.96	146.67	200.49
Morningstar Regional Banks	100.00	93.77	120.37	142.21	125.41	152.82

There can be no assurance that the Company's common stock performance will continue in the future with the same or similar trends depicted in the performance graph above. The Company does not and will not make or endorse any predictions as to future stock performance.

## **THE CITIZENS BANK OFFICERS**

Greg McKee  
President and CEO

Robert T. Smith  
Senior Vice President, CFO

Mark Taylor  
Senior Vice President, COO, Trust Officer

Ray Stone  
Senior Vice President, Chief Credit Officer

Ledale Reynolds  
Senior Vice President and CIO

Liz Owen  
Senior Vice President, Director of  
Human Resources, Chief Risk Officer

Erdis Chaney  
Vice President, Senior Deposit Officer

Jackie Hester  
Vice President, Marketing Officer

Darrel Bates  
Vice President, Collections Manager

Jean T. Fulton  
Vice President, Internal Auditor

Brad Copeland  
Vice President, Branch Manager

Mark Majure  
Vice President, Loan Review Officer

Bob Posey  
Vice President

Mike Chandler  
Vice President

Stacy Arnold  
Vice President, Compliance Officer

Tabbatha Calvert  
Vice President, BSA Officer

Joshua Sullivan  
Vice President, Senior Credit Analyst

Phillip Branch  
Vice President, Comptroller

Ashley Peebles  
Vice President, Director of Deposit Services

Sommer Vick  
Assistant Vice President, Assistant Trust Officer

Beth Branning  
Assistant Vice President

Mitch Peden  
Assistant Vice President, Information Services Manager

Pam Garrett  
Network Services Manager

Pat Stokes  
Assistant Vice President, Operations Officer

Scott Lewis  
Assistant Vice President, Information Security Officer

Sam Mars  
Assistant Vice President, Loan Officer

Shon Kirkland  
Assistant Vice President, Security Officer/  
Facilities Manager

Charles Wilkerson  
Assistant Vice President, Loan Operations Officer

Greg Jackson  
Accounting Officer

Reaghan Jenkins  
Accounting Officer

Deborah Ladd  
Item Processing Officer

Sandra Curtis  
Assistant Cashier, Teller Administrator

Temika Triplett  
Assistant Cashier, Electronic Services Officer

Craig Stevens  
Deposit Operations Officer

Grant Comans  
Assistance Vice President, Branch Manager

Jamie Shotts  
Vice President, Appraisal Review Officer

### **Carthage Branch**

Billy Cook  
Vice President

Tonya Dorman  
Deposit Operations Officer

### **Sebastopol Branch**

Connie Comans  
Branch President

**Union and Decatur Branches**

Susan Brown  
Deposit Operations Officer

**Kosciusko Branch**

Teresa Patterson  
Vice President, Branch Manager

David Blair, Mortgage Loan Officer  
Vice President

**Scooba and DeKalb Branches**

Reggie Moore  
Assistant Vice President, Branch Manager

Jan White  
Branch Operations Officer

**Forest Branch**

Richard Latham  
Vice President

Lawanda McCaughn  
Deposit Operation Officer

**Louisville Branch**

Bruce Lee  
Market President – Winston County

Lynn Graham  
Assistant Vice President, Branch Operations Officer

**Starkville Branch**

Rhonda Edmonson  
Assistant Vice President, Branch Manager

**Collinsville Branch**

Mike Shelby  
Vice President, Branch Manager

**Meridian Eastgate and Broadmoor Branches**

Jay Hines  
Vice President, Regional Commercial Lender

Vikki Gunter  
Assistant Vice President, Branch Operations Officer

**Hattiesburg Branch**

Chad Hill  
Vice President, Branch Manager

Tammy McAlpin  
Commercial Loan Portfolio Manager

**Flowood Branch**

Billy Cook  
Vice President, Manager

Daniel Webb  
Assistance Vice President, Loan Officer

**Biloxi Cedar Lake and Lemoyne Branches**

Travis Moore  
Regional Commercial Lender

Brandon Sherwood  
Regional Commercial Lender

Tammy Warren  
Assistant Vice President, Mortgage Loan Officer

Katie Hancock  
Vice President, Branch Manager

**Mortgage Loan Department**

Charlene Deweese  
Assistant Vice President, Mortgage Loan Officer

**Oxford Loan Production Office**

Marion Boyd  
Vice President, Regional Commercial Lender

**Pascagoula Branch**

Gregory E. Cronin  
Gulf Coast President

Ford Kinsey  
Vice President, Senior Credit Officer

Pam Lindsey  
Vice President, Senior Bank Officer

Paulette Roberts  
Vice President, Senior Operations Officer

Amber Thomas  
Vice President, Commercial Lender

Chandra McClendon  
Loan Operations Officer

Julius Bosco III  
Loan Compliance Officer

Pam Pierce  
Human Resources Officer

Theresa Jenkins  
Community Retail Officer

**Ocean Springs Branch**

Brad Grayson  
Vice President, Commercial Lender

Melissa Ceasar  
Community Retail Officer

Sharon Wetzel  
Vice President, Information Technology Officer

**Gulfport Branch**

Reagan Bridley  
Vice President, Commercial Lender

Thomas Graham  
Vice President, Mortgage Loan Officer

**Biloxi Medical Towers Branch**

Mandy Dawson  
Treasury Management Officer

Patrick Ricci  
Vice President, Commercial Lender



## **BOARD OF DIRECTORS**

Don Fulton  
Retired  
W. G. Yates and Sons Construction Co.

Donald L. Kilgore  
Special Assistant Attorney General  
State of Mississippi

David A. King  
Proprietor  
Philadelphia Motor Company

Herbert A. King  
Civil Engineer  
King Engineering Associates, Inc.

Adam Mars  
Business Manager  
Mars, Mars & Mars

Gregory E. Cronin  
Gulf Coast President  
Citizens Holding Company and  
The Citizens Bank

Craig Dungan, MD  
Physician  
Meridian Gastroenterology PLLC

Greg L. McKee  
President & Chief Executive Officer  
Citizens Holding Company and  
The Citizens Bank

David P. Webb  
Attorney  
Baker, Donelson, Bearman, Caldwell &  
Berkowitz, PC

A. T. Williams  
Certified Public Accountant  
A. T. Williams, CPA

Terrell E. Winstead  
Chief Financial Officer  
Molpus Woodlands Group

## **CITIZENS HOLDING COMPANY OFFICERS**

Herbert A. King  
Chairman

Greg L. McKee  
President and Chief Executive Officer

Mark Taylor  
Secretary

Robert T. Smith  
Treasurer and Chief Financial Officer

Gregory E. Cronin  
Gulf Coast President

## **BANKING LOCATIONS**

### **Philadelphia Main Office**

521 Main Street  
Philadelphia, MS 39350  
601.656.4692

### **Westside Branch**

912 West Beacon Street  
Philadelphia, MS 39350  
601.656.4692

### **Northside Branch**

802 Pecan Avenue  
Philadelphia, MS 39350  
601.656.4692

### **Eastside Branch**

599 East Main Street  
Philadelphia, MS 39350  
601.656.4692

### **Union Branch**

502 Bank Street  
Union, MS 39365  
601.774.9231

### **Starkville Branch**

201 Highway 12 West  
Starkville, MS 39759  
662.323.1420

### **Carthage Main Office**

301 West Main Street  
Carthage, MS 39051  
601.257.4525

### **Biloxi Cedar Lakes**

1830 Popp's Ferry Road  
Biloxi, MS 39532  
228.594.6913

### **Oxford Loan Production**

304 Enterprise Dr., Ste A  
Oxford, MS 38655

### **Collinsville Branch**

9065 Collinsville Road  
Collinsville, MS 39325  
601.626.7608

### **Flowood Branch**

5419 Hwy 25 Ste. Q  
Flowood, MS 39232  
601.992.7688

### **Sebastopol Branch**

24 Pine Street  
Sebastopol, MS 39359  
601.625.7447

### **DeKalb Branch**

176 Main Avenue  
DeKalb, MS 39328  
601.743.2115

### **Kosciusko Branch**

775 North Jackson Street  
Kosciusko, MS 39090  
662.289.4356

### **Scooba Branch**

27597 Highway 16 East  
Scooba, MS 39358  
662.476.8431

### **Meridian Eastgate**

1825 Hwy 39 North  
Meridian, MS 39301  
601.693.8367

### **Hattiesburg Branch**

6222 Highway 98  
Hattiesburg, MS 39402  
601.264.4425

### **Biloxi Medical Branch**

1721 Medical Park Dr.  
Biloxi, MS 39532

### **Decatur Branch**

15330 Hwy 15 South  
Decatur, MS 39327  
601.635.2321

### **Forest Branch**

247 Woodland Drive North  
Forest, MS 39074  
601.469.3424

### **Louisville-Main Branch**

100 East Main Street  
Louisville, MS 39339  
662.773.6261

### **Noxapater Branch**

45 East Main Street  
Noxapater, MS 39346  
662.724.4261

### **Louisville-Industrial Branch**

803 South Church Street  
Louisville, MS 39339  
662.773.6261

### **Biloxi Lemoyne Boulevard**

15309 Lemoyne Boulevard  
Biloxi, MS 39532  
228.207.2343

### **Meridian Broadmoor**

5015 Highway 493  
Meridian, MS 39305  
601.581.1541

### **Flowood Branch**

5419 Highway 25, Suite Q  
Flowood, MS 39232  
601.992.7688

### **Gulfport Branch**

12008 Hwy 49  
Gulfport, MS 39503

**BANKING LOCATIONS** - Continued

**Pascagoula Branch**

1519 Jackson Ave

Pascagoula, MS 39567

**Ocean Springs Branch**

2702 Bienville Blvd

Ocean Springs, MS 39564

**Phone Teller**

1.800.397.0344

**Internet and Mobile Banking**

<http://www.thecitizensbankphila.com>

## **FINANCIAL INFORMATION**

### **CORPORATE HEADQUARTERS**

521 Main Street  
P.O. Box 209  
Philadelphia, MS 39350

**601.656.4692**

### **ANNUAL SHAREHOLDER MEETING**

The Annual Shareholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 28, 2020, at 4:30 P.M. in the lobby of the main office of The Citizens Bank, 521 Main Street, Philadelphia, Mississippi.

### **STOCK REGISTRAR AND TRANSFER AGENT**

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038

### **FORM 10-K**

The Company's most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge to shareholders upon request to the Treasurer of the Citizens Holding Company.

### **FINANCIAL CONTACT**

Robert T. Smith  
Treasurer and Chief Financial Officer  
P.O. 209  
Philadelphia, Mississippi 39350

Additional information can be obtained from the Company's website at [www.citizensholdingcompany.com](http://www.citizensholdingcompany.com).

**Citizens Holding Company**  
521 Main Street, Philadelphia, MS 39350  
[www.thecitizensbankphila.com](http://www.thecitizensbankphila.com)