
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-15375

CITIZENS HOLDING COMPANY
(Exact Name of Registrant as Specified in Its Charter)

MISSISSIPPI
(State or Other Jurisdiction of
Incorporation or Organization)

64-0666512
(IRS Employer
Identification Number)

521 Main Street, Philadelphia, MS
(Address of Principal Executive Office)

39350
(Zip Code)

(601) 656-4692

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.20 par value	CIZN	NASDAQ Global Market

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

As of June 30, 2020, the aggregate market value of the registrant's common stock, \$.20 par value, held by non-affiliates of the registrant was \$126,925,111 based on the closing sale price as reported on the NASDAQ Global Market for such date (the exchange on which the registrant's common stock was listed on June 30, 2020).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 5, 2021
Common stock, \$.20 par value	5,587,070 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2020 are incorporated by reference into Part II of this Annual Report on Form 10-K.

Portions of Citizens Holding Company's Definitive Proxy Statement with respect to its 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Cautionary Note 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, and 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 Corporation operates including, but not limited to, the negative impacts and disruptions resulting from the COVID-19 pandemic;
- 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;

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- 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. Please also refer to Item 1A, "Risk Factors," for a detailed discussion of the risks related to the Company, the Bank in particular, and the banking industry generally.

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ITEM 1. BUSINESS.

BACKGROUND

The Company is a one-bank holding company incorporated under the laws of the State of Mississippi on February 16, 1982. The Company is the sole shareholder of The Citizens Bank of Philadelphia (the “Bank”). The Company does not have any subsidiaries other than the Bank. The “Company,” “we,” or “our,” as used herein, includes the Bank, unless the context otherwise requires. All dollar amounts appearing in this report are in thousands unless otherwise noted or the context otherwise dictates.

The Bank was opened on February 8, 1908 as The First National Bank of Philadelphia. In 1917, the Bank surrendered its national charter and obtained a state charter, at which time the name of the Bank was changed to The Citizens Bank of Philadelphia, Mississippi. At December 31, 2020, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of \$1,446,866 and total deposits of \$1,097,386. For more information regarding the assets, revenue and profits of the Company, refer to the Consolidated Financial Statements of the Company contained in Item 8, “Financial Statements and Supplementary Data.” The Company’s only reportable segment is the assets and cash flow of the Bank, resulting in revenues of \$51,021, operating profit of \$8,683 and total assets of \$1,450,692 for the Company as of December 31, 2020.

The principal executive offices of both the Company and the Bank are located at 521 Main Street, Philadelphia, Mississippi 39350, and the main telephone number is (601) 656-4692. All references hereinafter to the activities or operations of the Company reflect the Company’s activities or operations through the Bank.

OPERATIONS

Through its ownership of the Bank, the Company engages in a wide range of commercial and personal banking activities, including accepting demand deposits, savings and time deposit accounts, making secured and unsecured loans, issuing letters of credit, originating mortgage loans, and providing personal and corporate trust services. The Company also provides certain services that are closely related to commercial banking such as credit life insurance and title insurance for its loan customers.

Revenues from the Company’s lending activities constitute the largest component of the Company’s operating revenues. Revenue from loan interest and fees made up 60.6% of gross revenues in 2020, 54.7% in 2019 and 50.7% in 2018. Loan demand was stable and loan yields are holding stable considering the affects the COVID-19 pandemic has had on the economy. A portion of the loan increase is due to PPP loans the Company participated in to help customers affected by the pandemic. The Company’s primary lending area is East Central and South Mississippi, specifically Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Lafayette, Rankin, Harrison, Jackson, Madison, Winston and Kemper counties and contiguous counties. In 2019, the Company expanded its presence on the Mississippi Gulf Coast through the acquisition of Charter. The Company continues to look for areas of growth within the state of Mississippi and surrounding states but, occasionally the Company extends out-of-area credit to borrowers who are considered to be low risk, as defined within the Bank’s lending policy. The Company is not dependent upon any single customer or small group of customers, and it has no foreign operations.

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The Company's market area has historically been rural, however, since 2008, the Company has continued to expand into larger metropolitan areas and now serves a number of larger growth areas with Gulfport, population 71,570, Hattiesburg, population 46,251, Biloxi, population 45,568, and Meridian, population 38,602, being the largest markets. The economy throughout Mississippi is becoming more diverse but agriculture and manufacturing continue to be the largest industries in Mississippi. For more information regarding revenue from external customers for the last three fiscal years, attributed by geographic region, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in the Company's Annual Report and attached as an exhibit hereto.

The Company has historically made, and intends to continue to make, most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction, and commercial real estate loans. At December 31, 2020, approximately 78.1% of the Company's loan portfolio was attributed to real estate lending, 19.7% of the Company's loan portfolio was comprised of commercial, industrial and agricultural production loans, and consumer loans made up the remaining 2.2% of the Company's total loan portfolio.

The Company's loan personnel have the authority to extend credit under guidelines established and approved by the Company's 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 independent Company directors. All aggregate credits that exceed the loan committee's lending authority are presented to the 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 policies, but also provides valuable insight through the communication and pooling of knowledge, judgment and experience of its members.

All loans in the Company's portfolio are subject to risk based on the state of both the local and national economy. As our footprint expands, the Company's portfolio risks are more closely aligned with the state economy. The state economy remains stable after having an increase in unemployment due to the pandemic with unemployment rates slowly improving. The state economy is expected to remain stable with vaccine distribution occurring currently. The national economy remains stable as well with certain state's being affected worse than others. It is still uncertain how the slowing economies on the local, state and national levels will affect the Company in the future.

The Company continues to invest in technology as we understand it is necessary to compete in today's market. The Company has the technology for consumers to perform many of the routine, transaction-related items through its online and mobile platforms. Additionally, the Company continues to build out a robust treasury management suite of products for business banking such as remote deposit capture, ACH transactions and wire transfers. The Company is evolving with the market to ensure we continue to offer a great customer experience that they have come to expect from the Company.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Greg L. McKee, 59, has been employed by the Bank since 1984. He was named President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank in January 2003. He has served as President of the Bank since January 2002 and served as Chief Operating Officer of the Bank from January 2002 until December 31, 2002. He has also been a member of the Board of Directors of both the Company and the Bank since 2001. Mr. McKee served as Executive Vice-President of the Bank from 2001 to 2002, Senior Vice-President of the Bank from 2000 to 2001, Vice-President of the Bank from 1992 to 2000, Assistant Vice-President of the Bank from 1989 to 1992, and Assistant Cashier of the Bank from 1984 to 1989.

Phillip R. Branch, 37, has been employed by the Bank since 2018. He has served as Senior Vice-President and Chief Financial Officer of the Bank since October 2020. Prior to October 2020, Mr. Branch held the title of Vice-President and Comptroller of the Bank from 2018 until 2020. Prior to joining Citizens, Mr. Branch was a Senior Manager in the Financial Institutions practice of HORNE LLP, beginning in September 2006, serving banks throughout the southeastern United States. Mr. Branch has been a Certified Public Accountant since 2009.

EMPLOYEES

The Company has no employees other than three Bank officers who provide services to the Company. These officers receive no compensation from the Company for their services to it as their compensation is paid by the Bank. At December 31, 2020, the Bank employed 264 full-time employees and 25 part-time employees. The Bank is not a party to any collective bargaining agreements, and employee relations are considered to be good.

SUPERVISION AND REGULATION

The Bank is chartered under the banking laws of the State of Mississippi and is subject to the supervision of, and is regularly examined by, the Mississippi Department of Banking and Consumer Finance and the Federal Deposit Insurance Corporation (“FDIC”). The Company is a registered bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the “BHC Act”), and is subject to the supervision of the Federal Reserve Board (“FRB”). Certain legislation and regulations affecting the businesses of the Company and the Bank are discussed below.

General.

The current regulatory environment for financial institutions includes substantial enforcement activity by the federal and state banking agencies, and other state and federal law enforcement agencies, reflecting an increase in activity over prior years. This environment entails significant increases in compliance requirements and associated costs. The FRB requires the Company to maintain certain levels of capital and to file an annual report with the FRB. The FRB also has the authority to conduct examinations of the Company and the Bank and to take enforcement action against any bank holding company that engages in any unsafe or unsound practice or that violates certain laws, regulations, or conditions imposed in writing by the FRB.

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Financial Reform.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, (“Dodd- Frank Act”) made extensive changes in the regulation of financial institutions. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based, a number of which still have not been implemented. It is anticipated that these rules and enforcement by the Bank’s regulators will continue to evolve through regulatory amendments, informal interpretations, and enhanced enforcement in the future. Congress and the President have announced proposed reforms and changes to the Dodd-Frank Act, and it is uncertain how the Dodd- Frank Act provisions may be modified or the ultimate impact any such modifications may have to our business operations.

In November 2017, a bipartisan group of U.S. Senators, led by Senate Banking Committee Chairman, introduced the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Economic Growth Act”). The Economic Growth Act, signed into law on May 24, 2019, provides relief from certain regulatory requirements under the Dodd-Frank Act. Generally, the Economic Growth Act addressed the following areas: the threshold at which banks are classified as systemically important financial institutions (SIFIs), and therefore subject to stricter oversight; targeted relief from Dodd-Frank Act requirements for smaller banks; capital formation; mortgage lending; student borrower debt and provisions addressing veterans, consumers and homeowners. While we expect the Economic Growth Act to have an overall positive impact on our business going forward, we continue to evaluate its impact on our business and that impact remains uncertain.

Capital Standards.

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%. At December 31, 2020, the Company’s ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items was 13.14%, and its ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items was 12.55%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 4%. The Company’s leverage ratio at December 31, 2020 was 7.22%.

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

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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.

Beginning January 1, 2015, the Bank began to comply with the Basel III rules, although the rules were not fully phased-in until January 1, 2019. Among other things, the final 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 does 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.

Management believes that, as of December 31, 2020, the Company and the Bank met all capital adequacy requirements under Basel III. Management will continue to monitor these and any future proposals submitted by the Company’s and Bank’s regulators.

Prompt Corrective Action and Other Enforcement Mechanisms.

The Federal Deposit Insurance Corporation Improvement Act of 1991, as amended (“FDICIA”) requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including, but not limited to, those that fall below one or more of the prescribed minimum capital ratios. The law requires each federal banking agency to promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized. The Company and the Bank are classified as well capitalized under the guidelines promulgated by the FRB and the FDIC.

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Safety and Soundness Standards.

FDICIA also implemented certain specific restrictions on transactions and required the regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation, and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, the use of brokered deposits and the aggregate extension of credit by a depository institution to an executive officer, director, principal shareholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions and for deposits by certain employee benefits accounts.

Restrictions on Dividends and Other Distributions.

The Company's ability to pay dividends depends in large part on the ability of the Bank to pay dividends to the Company. The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to federal statutory and regulatory restrictions, which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions.

The approval of the Mississippi Department of Banking and Consumer Finance is also required prior to the Bank paying dividends. The department's regulations limit dividends to earned surplus in excess of three times the Bank's capital stock. At December 31, 2020, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was approximately \$106,804, or 91.2% of the Bank's consolidated net assets.

FRB regulations limit the amount the Bank may loan to the Company unless those loans are collateralized by specific obligations. At December 31, 2020, the maximum amount available for transfer from the Bank in the form of loans was \$11,708, or 10% of the Bank's consolidated net assets. The Bank does not have any outstanding loans with the Company.

FDIC Insurance Assessments.

The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor, through the Deposit Insurance Fund ("DIF") and safeguards the safety and soundness of the banking and thrift industries. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The FDIC's deposit insurance premium assessment is based on an institution's average consolidated total assets minus average tangible equity.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, the Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings.

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Other BHC Act Provisions.

The BHC Act requires a bank holding company to obtain the prior approval of the FRB before acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by such bank holding company. The BHC Act provides that the FRB shall not approve any acquisition, merger or consolidation that would result in a monopoly or that would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking. The FRB also will not approve any other transactions in which the effect might be to substantially lessen competition or in any manner be a restraint on trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in the probable effect of the transaction in meeting the convenience and needs of the community to be served.

The BHC Act also prohibits a bank holding company, with certain exceptions, from engaging in or from acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. The principal exception to this rule is for engaging in or acquiring shares of a company whose activities are found by the FRB to be so closely related to banking or managing banks as to be a proper incident thereto. In making such determinations, the FRB is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can reasonably be expected to produce benefits to the public such as greater convenience, increased competition or gains in efficiency of resources that outweigh the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest or unsound banking practices.

The BHC Act prohibits the acquisition by a bank holding company of more than 5% of the outstanding voting shares of a bank located outside the state in which the operations of its banking subsidiaries are principally conducted, unless such an acquisition is specifically authorized by statute of the state in which the bank to be acquired is located.

The Company and the Bank are subject to certain restrictions imposed by the Federal Reserve Act and the Federal Deposit Insurance Act on any extensions of credit to the Company or the Bank, on investments in the stock or other securities of the Company or the Bank, and on taking such stock or other securities as collateral for loans of any borrower.

The BHC Act was amended in 2000 by the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 to permit “financial holding companies” to engage in a broader range of nonbanking financial activities, such as underwriting and selling insurance, providing financial or investment advice, and dealing and making markets in securities and merchant banking. In order to qualify as a financial holding company, the Company must declare to the FRB its intention to become a financial holding company and certify that the Bank meets the capitalization management requirements and that it has at least a satisfactory rating under the Community Reinvestment Act of 1997, as amended (the “CRA”). To date, we have not elected to become a financial holding company.

Community Reinvestment Act.

The CRA requires the assessment by the appropriate regulatory authority of a financial institution’s record in meeting the credit needs of the local community, including low and moderate-income neighborhoods. The regulations promulgated under CRA emphasize an assessment of actual performance in meeting local credit needs, rather than of the procedures followed by a bank to

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evaluate compliance with the CRA. CRA compliance is also a factor in evaluations of proposed mergers, acquisitions and applications to open new branches or facilities. Overall CRA compliance is rated across a four-point scale from “outstanding” to “substantial noncompliance.” Different evaluation methods are used depending on the asset size of the bank.

The FDIC examined the Bank on September 24, 2019 for its performance under the CRA. The Bank was rated Satisfactory during this examination, and the FDIC found no discriminatory practices or illegal discouragement of applications.

Consumer Protection.

The Bank is subject to a number of federal and state consumer protection laws. These laws provide substantive consumer rights and subject the Bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which the Bank operates and civil money penalties. Failure to comply with consumer protection requirements may also result in the Bank’s failure to obtain any required bank regulatory approval for merger or acquisition transactions the Bank may wish to pursue or its prohibition from engaging in such transactions even if approval is not required.

Anti-Money Laundering Efforts.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”) requires financial institutions to establish anti-money laundering programs and due diligence policies, procedures and controls with respect to bank accounts involving foreign individuals and certain foreign banks, and to avoid establishing and maintaining accounts in the United States for, or on the behalf of, foreign banks that do not have a physical presence in any country. We believe that we are in compliance with the requirements of the USA PATRIOT Act.

Corporate Governance.

The Sarbanes-Oxley Act of 2002 (“Sarbanes Act”) requires publicly traded companies, such as the Company, to adhere to several directives designed to prevent corporate misconduct. As a result, additional duties have been placed on officers, directors, auditors and attorneys of public companies. The Sarbanes Act requires certifications regarding financial statement accuracy and internal control adequacy by the chief executive officer and the chief financial officer to accompany periodic reports filed with the Securities and Exchange Commission (“SEC”). The Sarbanes Act also accelerates insider reporting obligations under Section 16 of the Securities Exchange Act of 1934, as amended, restricts certain executive officer and director transactions, imposes new obligations on corporate audit committees and provides for enhanced review by the SEC.

The Dodd-Frank Act mandated a number of new requirements with respect to corporate governance. The legislation requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years and on so-called “golden parachute”

payments in connection with approvals of mergers and acquisitions. The Dodd-Frank Act also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion, regardless of whether the company is publicly traded. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Impact of Monetary Policies.

Banking is a business that substantially depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and other borrowings and the interest rate earned by banks on loans, securities and other interest-earning assets comprises the major source of banks' earnings. Thus, the earnings and growth of banks are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies including the FRB. The nature and timing of any future changes in such policies and their impact on the Company cannot be predicted.

Future Legislation.

Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and our operating environment in substantial and unpredictable ways and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or our results of operations. With the proposals to alter the Dodd-Frank Act and the evolution of the CFPB, the nature and extent of future legislative and regulatory changes affecting financial institutions continues to be very unpredictable.

COMPETITION

The banking business is highly competitive. The Company's primary market area is East Central, South and North Mississippi, specifically Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Lafayette, Rankin, Harrison, Jackson, Winston and Kemper counties and contiguous counties. In 2019, the Company expanded its presence on the Mississippi Gulf Coast through the acquisition of Charter. The Company continues to look for areas of growth in the state of Mississippi and surrounding states but, occasionally the Company extends out-of-area credit to borrowers who are considered to be low risk, as defined within the Bank's lending policy. The Company competes with local, regional and national financial institutions in these counties and in surrounding counties in Mississippi in obtaining deposits, lending activities and providing many types of financial services. The Company also competes with larger regional banks for the business of companies located in the Company's market area.

All financial institutions, including the Company, compete for customers' deposits. The Company also competes with savings and loan associations, credit unions, production credit associations, federal land banks, finance companies, personal loan companies, money market funds and other non-depository financial intermediaries. Many of these financial institutions have resources

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significantly greater than those of the Company. In addition, financial intermediaries, such as money-market mutual funds and large retailers, are not subject to the same regulations and laws that govern the operation of traditional depository institutions. The Company believes it benefits from a good reputation in the community and from the significant length of time it has provided needed banking services to its customers. Also, as a locally owned financial institution, the Company believes it is able to respond to the needs of the community with services tailored to the particular demands of its customers. Furthermore, as a local institution, the Company believes it can provide such services faster than a larger institution not based in the Company's market area.

Changes in federal and state law have resulted in, and are expected to continue to result in, increased competition. The reductions in legal barriers to the acquisition of banks by out-of-state bank holding companies resulting from implementation of the Dodd-Frank Act and other banking laws and regulations are expected to continue to further stimulate competition in the markets in which the Company operates, although it is not possible to predict the extent or timing of such increased competition.

Currently, there are approximately forty different financial institutions in the Company's market competing for the same customer base. According to the FDIC's Summary of Deposits that is collected as of June 30 each year, the Company's market share in its market area was approximately 1.66% at June 30, 2020. The Company competes in its market for loan and deposit products, along with many of the other services required by today's banking customer, on the basis of availability, quality and pricing. The Company believes it is able to compete favorably in its markets, in terms of both the rates the Company offers and the level of service that the Company provides to its customers.

AVAILABILITY OF INFORMATION

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto, along with other information about the Company, are available, free of charge, on our website, <http://www.citizensholdingcompany.com>. The information contained on our website is not incorporated into this report. Upon request, the Company will provide to any record holder or beneficial holder of its shares a copy of such reports without charge. Requests should be made to Phillip R. Branch, Treasurer and Chief Financial Officer, Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

ITEM 1A. RISK FACTORS.

In addition to the other information contained in or incorporated by reference into this report and the exhibits hereto, the following risk factors should be considered carefully in evaluating the Company's business. The risks disclosed below, either alone or in combination, could materially adversely affect the business, prospects, financial condition or results of operations of the Company and/or the Bank. Additional risks not presently known to the Company, or that the Company currently deems immaterial, may also adversely affect the Company's business, financial condition or results of operations.

Risks Related To The Company's Business and Industry

The Company is subject to interest rate risk.

One of the most important aspects of management's efforts to sustain long-term profitability for the Company is the management of interest rate risk. Management's goal is to maximize net interest income within acceptable levels of interest-rate risk and liquidity.

The Company's assets and liabilities are principally financial in nature and the resulting earnings thereon are subject to significant variability due to the timing and extent to which the Company can reprice the yields on interest-earning assets and the costs of interest bearing liabilities as a result of changes in market interest rates. Interest rates in the financial markets affect the Company's decisions on pricing its assets and liabilities, which impacts net interest income, an important cash flow stream for the Company. As a result, a substantial part of the Company's risk-management activities is devoted to managing interest-rate risk. Currently, the Company does not have any significant risks related to foreign currency exchange, commodities or equity risk exposures.

The Company's earnings and cash flows are largely dependent upon the net interest income of the Company. Net interest income is the difference between interest earned on assets, such as loans and securities, and the cost of interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest the Company pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, which could reduce the amount of fee income generated; (ii) the fair value of the Company's financial assets and liabilities; and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income could be adversely affected, which in turn could negatively affect its earnings. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the results of operations of the Company, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. For the reasons set forth above, an increase in interest rates generally as a result of such a credit rating downgrade could adversely affect our net interest income levels, thereby resulting in reduced earnings, and reduce loan demand. Volatility in interest rates may also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as United States Government and Agency securities and other investment vehicles, including mutual funds, which generally pay higher rates of return than financial institutions because of the absence of federal insurance premiums and reserve requirements. Disintermediation could also result in material adverse effects on the Company's financial condition and results of operations.

A discussion of the policies and procedures used to identify, assess and manage certain interest rate risk is set forth in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

The Company is subject to lending risk.

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those across the United States. Increases in interest rates or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

As of December 31, 2020, approximately 79.1% of the Company's loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

Delays in the Company's ability to foreclose on delinquent mortgage loans may negatively impact our business.

As business necessitates, the Company forecloses on and takes title to real estate serving as collateral for loans. The amount of other real estate held by the Company may increase in the future as a result of, among other things, business combinations, increased uncertainties in the housing market or increased levels of credit stress in residential real estate loan portfolios. Increased other real estate balances could lead to greater expenses as the Company incurs costs to manage, maintain and dispose of real properties as well as to remediate any environmental cleanup costs incurred in connection with any contamination discovered on real property on which the Company has foreclosed and to which the Company has taken title. As a result, the Company's earnings could be negatively affected by various expenses associated with other real estate owned, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with real property ownership, as well as by the funding costs associated with other real estate assets. The expenses associated with holding a significant amount of other real estate could have a material adverse effect on the Company's financial condition or results of operations.

The allowance for possible loan losses may be insufficient.

Although the Company tries to maintain diversification within its loan portfolio in order to minimize the effect of economic conditions within a particular industry, management also maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on management's quarterly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment. Among other considerations in establishing the allowance for loan losses, management considers economic conditions reflected within industry segments, the unemployment rate in the Company's markets, loan segmentation and historical losses that are inherent in the loan portfolio.

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The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses.

In addition, bank regulatory agencies periodically review the allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. A discussion of the policies and procedures related to management's process for determining the appropriate level of the allowance for loan losses is set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company is subject to environmental liability risk associated with lending activities.

A significant portion of the loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the ability of the Company to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although management has policies and procedures to perform an environmental review during the loan application process and also before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

Our business, financial condition, liquidity, capital and results of operations have been, and will likely continue to be, adversely affected by the COVID-19 pandemic.

The COVID-19 pandemic has created disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition, liquidity, capital and results of operations. We cannot predict the extent to which the pandemic will continue to cause such adverse effects. The extent of any continued or future adverse effects will depend on future developments, which are highly uncertain and outside our control, including the scope and duration of the COVID-19 pandemic and its impact on our employees, clients, customers, counterparties and service providers, as well as other market participants. Circumstances brought about by the pandemic persist, including worsened economic conditions, increased market volatility, ratings downgrades, credit deterioration and defaults, reductions in the targeted federal funds rate, and increased spending on business continuity efforts, which may require that we reduce costs and investments in other areas. If the pandemic continues for a more extended period or worsens, we may face additional circumstances such as significant draws on credit lines by our customers.

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We are offering assistance to support customers experiencing financial hardships related to the pandemic. If such measures are not effective in mitigating the effects of the pandemic on borrowers, we may experience higher rates of default and increased credit losses in the future. We may also have to provide additional assistance or otherwise experience higher rates of default and increased credit losses. Further, we have approximately \$29,523 in PPP loans as of year-end 2020. These efforts may affect our revenue and results of operations and make our results more difficult to forecast as the PPP forgiveness process has begun and the timing and amount of forgiveness to which our borrowers will be entitled is unpredictable. In addition, the PPP and other government programs in which we may participate are complex and our participation may lead to governmental and regulatory scrutiny, negative publicity and damage to our reputation.

Certain industries where the Company has credit exposure, including commercial real estate,¹ have experienced, and in some cases are continuing to experience, significant operational challenges as a result of the COVID-19 pandemic. These operational challenges could result in our commercial lending clients making higher than usual draws on outstanding lines of credit, which may negatively affect our liquidity. The effects of the COVID-19 pandemic may also cause our commercial customers to be unable to pay their loans as they come due or decrease the value of collateral, which we expect would cause significant increases in our credit losses.

Other negative effects of the pandemic that may impact our business, financial condition, liquidity, capital and results of operations cannot be predicted at this time, but it is likely that such adverse effects will continue until the COVID-19 pandemic subsides and the U.S. economy fully recovers. The COVID-19 pandemic may also have the effect of heightening many of the other risks described in this section of our Annual Report on Form 10-K, including, without limitation, risks related to cybersecurity attacks. Until the COVID-19 pandemic subsides, we expect increased credit losses and a decrease in certain sources of fee income.

The FRB has implemented significant economic strategies that have impacted interest rates, inflation, asset values, and the shape of the yield curve to help stimulate the economy due to the COVID-19 pandemic.

The COVID-19 pandemic has significantly affected the financial markets and has resulted in a number of actions by the Federal Reserve Bank (“FRB”). Market interest rates have declined significantly. On March 3, 2020, the ten-year Treasury yield fell below 1.00% for the first time, and the FRB reduced the target federal funds rate by 50 basis points to a range of 1.00% to 1.25%. On March 15, 2020, the FRB further reduced the target federal funds rate by 100 basis points to a range of 0.00% to 0.25% and announced a \$700 billion quantitative easing program in response to the expected economic downturn caused by the COVID-19 pandemic. The FRB reduced the interest that it pays on excess reserves from 1.60% to 1.10% on March 3, 2020, and then to 0.10% on March 15, 2020. FRB strategies can, and often are intended to, affect the domestic money supply, inflation, interest rates, and the shape of the yield curve. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Risks associated

¹ We would anticipate to see any heavily impacted industries by the pandemic in which the Bank has material credit exposure, including any retail, hospitality, and oil and gas industries, etc.

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with interest rates and the yield curve are discussed in this Item 1A under the caption “The Company is subject to interest rate risk.” Such strategies also can affect the United States and world-wide financial systems in ways that may be difficult to predict.

The profitability of the Company depends significantly on economic conditions in the State of Mississippi.

The Company’s success depends primarily on the general economic conditions of the State of Mississippi and the specific local markets in which it operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in East Central and South Mississippi. The local economic conditions in this area have a significant impact on the demand for the Company’s products and services, as well as the ability of its customers to repay loans, the value of the collateral securing loans and the stability of its deposit funding sources.

The Company is subject to extensive government regulation and supervision.

The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations and supervisory guidance affect the Company’s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation or statutes, regulations, policies and supervisory guidance, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of nonbanks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, civil money penalties, other sanctions by regulatory agencies and/or reputational damage. In this regard, government authorities, including bank regulatory agencies, continue to pursue enforcement agendas with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on the Company’s financial condition or results of operations.

We are subject to claims and litigation.

From time to time, customers and others make claims and take legal action pertaining to our performance of our responsibilities. Whether customer claims and legal action related to our performance of our responsibilities are founded or unfounded, or if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

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We are subject to a variety of operational risks, including the risk of fraud or theft by employees, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including liquidity risk, credit risk, market risk, interest rate risk, legal and compliance risk, strategic risk, information security risk, and reputational risk. We are also reliant upon our employees, and our operations are subject to the risk of fraud, theft or malfeasance by our employees. We have established processes and procedures intended to identify, measure, monitor, report and analyze these risks, however, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated, monitored or identified. If our risk management framework proves ineffective, we could suffer unexpected losses, we may have to expend resources detecting and correcting the failure in our systems and we may be subject to potential claims from third parties and government agencies. We may also suffer severe reputational damage. Any of these consequences could adversely affect our business, financial condition or results of operations. In particular, the unauthorized disclosure, misappropriation, mishandling or misuse of personal, non-public, confidential or proprietary information of customers could result in significant regulatory consequences, reputational damage and financial loss.

Our risk management policies and procedures may not be fully effective in identifying or mitigating risk exposure in all market environments or against all types of risk, including employee misconduct.

We have devoted significant resources to develop our risk management policies and procedures and will continue to do so. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. During periods of market volatility or due to unforeseen events, the historically derived correlations upon which these methods are based may not be valid. As a result, these methods may not predict future exposures accurately, which could be significantly greater than what our models indicate. This could cause us to incur investment losses or cause our hedging and other risk management strategies to be ineffective. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that are publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated.

Moreover, we are subject to the risks of errors and misconduct by our employees and advisors, such as fraud, non-compliance with policies, recommending transactions that are not suitable, and improperly using or disclosing confidential information. These risks are difficult to detect in advance and deter, and could harm our business, results of operations or financial condition. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Insurance and other traditional risk-shifting tools may be held by or available to us in order to manage certain exposures, but they are subject to terms such as deductibles, coinsurance, limits and policy exclusions, as well as risk of counterparty denial of coverage, default or insolvency.

The Company may be subject to more stringent capital and liquidity requirements which would adversely affect its net income and future growth.

The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will change the way in which hybrid securities, such as trust preferred securities, are treated for purposes of determining a bank holding company's regulatory capital. In 2011, the federal banking agencies published a final rule regarding minimum leverage and risk-based capital requirements for banks and bank holding companies consistent with the requirements of Section 171 of the Dodd-Frank Act. For a more detailed description of the minimum capital requirements see "Supervision and Regulation – Capital Standards". These requirements, and any other new regulations, could adversely affect the Company's ability to pay dividends, or could require the Company to reduce business levels or to raise capital, including in ways that may adversely affect the Company's results of operations or financial condition.

In addition, in 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. In 2013, regulators adopted enhancements to United States capital standards based on Basel III. The revised standards create a new emphasis on Tier 1 common equity, modify eligibility criteria for regulatory capital instruments, and modify the methodology for calculating risk-weighted assets. The revised standards require the following:

- ***Tier 1 Common Equity.*** For all supervised financial institutions, including the Company and the Bank, the ratio of Tier 1 common equity to risk-weighted assets ("Tier 1 Common Equity Capital ratio") must be at least 4.5%. To be "well capitalized" the Tier 1 Common Equity Capital ratio must be at least 6.5%. If a capital conservation buffer of an additional 2.5% above the minimum 4.5% (or 7% overall) is not maintained, special restrictions would apply to capital distributions, such as dividends and stock repurchases, and on certain compensatory bonuses. Tier 1 common equity capital consists of core components of Tier 1 capital: common stock plus retained earnings net of goodwill, other intangible assets, and certain other required deduction items.
- ***Tier 1 Capital Ratio.*** For all banking organizations, including the Bank, the ratio of Tier 1 capital to risk-weighted assets must be at least 6%. The threshold is raised from the prior 4%, and the risk-weighting method is changed as mentioned above. To be "well capitalized" the Tier 1 capital ratio must be at least 8%.
- ***Total Capital Ratio.*** For all supervised financial institutions, including the Company and the Bank, the ratio of total capital to risk-weighted assets must be at least 8%. Although this threshold is unchanged from prior requirements, as mentioned above the method for risk-weighting assets has been changed. As a result of that method change, many banks could have experienced a reduction in this ratio if the change had been effective immediately when the rules were adopted.
- ***Leverage Ratio – Base.*** For all banking organizations, including the Bank, the leverage ratio must be at least 4%. To be "well capitalized" the leverage ratio must be at least 5%.
- ***Leverage Ratio – Supplemental.*** For the largest internationally active banking organizations, not including the Bank, a minimum supplementary leverage ratio must be maintained that takes into account certain off-balance sheet exposures.

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The revised standards took effect on January 1, 2015 for the Company and the Bank. The capital conservation buffer requirement is subject to a phase-in period.

Future increases in minimum capital requirements could adversely affect the Company's net income. Furthermore, the Company's failure to comply with the minimum capital requirements could result in regulators taking formal or informal actions against the Company which could restrict future growth or operations.

The Company may be required to pay significantly higher FDIC premiums in the future.

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at an adequate level. The FDIC may increase these rates and impose additional special assessments in the future, which could have a material adverse effect on future earnings.

The Company's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Company's internal control over financial reporting, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, 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 the Company's adherence to financial reporting, disclosure and corporate governance policies and procedures.

The Company may be adversely affected by the soundness of other financial institutions.

Financial institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

The Company relies on third party vendors for a number of key components of its business.

The Company contracts with a number of third party vendors to support its infrastructure. Many of these vendors are large national companies who are dominant in their area of expertise and would be difficult to quickly replace. Failures of certain vendors to provide services could adversely affect the Company's ability to deliver products and services to its customers, disrupting its business and causing it to incur significant expense. External vendors also present information security risks.

The Company is substantially dependent on dividends from the Bank for its revenues.

The Company is a separate and distinct legal entity from the Bank, and it receives substantially all of its revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on its common stock and interest and principal on debt. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Company. In the event the Bank is unable to pay dividends to the Company, it may not be able to pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, prospects, financial condition and results of operations. The information under the heading "Supervision and Regulation" in Item 1, "Business," provides a discussion about the restrictions governing the Bank's ability to transfer funds to the Company.

Potential acquisitions may disrupt the Company's business and dilute shareholder value.

From time-to-time, the Company evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place, and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to the Company's business;
- potential diversion of management's time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

In addition, acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, or other projected benefits from an acquisition could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company's information systems may experience an interruption or breach in security. Evolving technologies and the need to protect against and react to cybersecurity risks and electronic fraud requires significant resources.

The Company relies heavily on communications and information systems to conduct its business. Furthermore, the Bank provides its customers the ability to bank online. The secure

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transmission of confidential information over the Internet is a critical element of online banking. The Company needs to invest in information technology to keep pace with technology changes, and while the Company invests amounts it believes will be adequate, it may fail to invest adequate amounts such that the efficiency of information technology systems fails to meet operational needs. Any failure, interruption or breach in security of these systems could result in failures or disruptions in its customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of the Company's information systems, there can be no assurance that any such failures, interruptions or security breaches will be prevented, and if they occur, that they will be adequately addressed. Additionally, to the extent the Company relies on third party vendors to perform or assist operational functions, the challenge of managing the associated risks becomes more difficult. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage its reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on the financial condition and results of operations of the Company.

The operational functions of business counterparties may experience similar disruptions that could adversely impact us and over which the Company may have limited or no control.

Over the course of the past few years, companies such as major retailers have experienced data systems incursions reportedly resulting in the thefts of credit and debit card information, online account information, and other financial data of tens of millions of the retailers' customers. Retailer incursions affect cards issued and deposit accounts maintained by many banks, including the Bank. Although the Bank systems are not breached in retailer incursions, these events can cause the Bank to reissue a significant number of cards and take other costly steps to avoid significant theft loss to the Bank and its customers. Other possible points of incursion or disruption not within the Bank's control include internet service providers, electronic mail portal providers, social media portals, distant-server ("cloud") service providers, electronic data security providers, telecommunications companies, and smart phone manufacturers.

The Company continually encounters technological change and we may not have the resources to implement new technology.

The Company's industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the Company's industry could have a material adverse impact on its business and, in turn, the Company's financial condition and results of operations.

Consumers may decide not to use banks to complete their financial transactions.

While the Company continually attempts to use technology to offer new products and services, at the same time, technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds in brokerage accounts, mutual funds or use electronic payment methods such as Apple Pay or PayPal, that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

The Company is subject to accounting estimate risks.

The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires management to make significant estimates that affect the financial statements. The Company's most critical estimate is the level of the allowance for credit losses. However, other estimates occasionally become highly significant, especially in volatile situations such as litigation and other loss contingency matters. Estimates are made at specific points in time; as actual events unfold, estimates are adjusted accordingly. Due to the inherent nature of these estimates, it is possible that, at some time in the future, the Company may significantly increase the allowance for credit losses or sustain credit losses that are significantly higher than the provided allowance, or the Company may make some other adjustment that will differ materially from the estimates that the Company makes today.

Risks Associated With the Company's Common Stock

The trading volume in the Company's common stock is less than that of other larger bank holding companies.

The Company's common stock is listed for trading on NASDAQ Global Market. The average daily trading volume in the Company's common stock is low, generally less than that of many of its competitors and other larger bank holding companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause volatility in the price of the Company's common stock.

Issuing additional shares of our common stock to acquire other banks, bank holding companies, financial holding companies and/or insurance agencies may result in dilution for existing shareholders and may adversely affect the market price of our stock.

We may issue, in the future, shares of our common stock to acquire additional banks, bank holding companies, and other businesses related to the financial services industry that may complement our organizational structure. Resales of substantial amounts of common stock in the

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public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. We may be required to pay an acquisition premium above the fair market value of acquired assets for acquisitions. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

The Company's Articles of Incorporation and Bylaws, as well as certain banking laws, may have an anti-takeover effect.

Provisions of the Company's Articles of Incorporation and Bylaws, which are exhibits to this Annual Report on Form 10-K, and the federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial to the Company's shareholders. The combination of these provisions impedes a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

General Risk Factors

The Company is subject to risk from adverse economic conditions.

Our operations and profitability are impacted by general business and economic conditions in the State of Mississippi, and the United States. These conditions include recession, short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control. A deterioration in economic conditions could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values and a decrease in demand for our products and services, among other things, any of which could have a material adverse impact on our financial condition and results of operations.

Negative perceptions or publicity could damage our reputation among existing and potential customers, investors, employees and advisors.

Our reputation is one of our most important assets. Our ability to attract and retain customers, investors, employees and advisors is highly dependent upon external perceptions of our company. Damage to our reputation could cause significant harm to our business and prospects and may arise from numerous sources, including litigation or regulatory actions, failing to deliver minimum standards of service and quality, compliance failures, any perceived or actual weakness in our financial strength or liquidity, technological, cybersecurity, or other security breaches resulting in improper disclosure of client or employee personal information, unethical behavior and the misconduct of our employees, advisors and counterparties. Negative perceptions or publicity regarding these matters could damage our reputation among existing and potential customers, investors, employees and advisors. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us. In addition, the SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. It is possible that potential or perceived conflicts could give rise to litigation or enforcement actions. It is possible also that the regulatory scrutiny of, and litigation in connection with, conflicts of interest will make our clients less willing to enter into transactions in which such a conflict may occur and will adversely affect our businesses.

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The Company may not be able to attract and retain skilled people.

The Company's success depends in part on its ability to retain key executives and to attract and retain additional qualified personnel who have experience both in sophisticated banking matters and in operating a bank of the Company's size. Competition for such personnel is strong in the banking industry, and the Company may not be successful in attracting or retaining the personnel it requires. The unexpected loss of one or more of the Company's key personnel could have a material adverse impact on its business because of their skills, knowledge of the Company's markets, years of industry experience and the difficulty of promptly finding qualified replacements. The Company expects to effectively compete in this area by offering financial packages that are competitive within the industry.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.

The Bank has branches along the coast of Mississippi that are subject to risks from hurricanes from time to time. Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the ability of the Company to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause the Company to incur additional expenses. The occurrence of any such event could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company's stock price can be volatile.

Stock price volatility may make it more difficult for you to sell your common stock when you want and at prices you find attractive. The Company's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock performance of other companies that to be peers;
- perceptions in the marketplace regarding the Company or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations involving the Company or its competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- volatility affecting the financial markets in general.

General market fluctuations, the potential for breakdowns on electronic trading or other platforms for executing securities transactions, industry factors and general economic and political conditions could cause the Company's stock price to decrease regardless of operating results.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

The Company, through the Bank, currently operates from its main office in downtown Philadelphia, Mississippi, and from 28 additional branches in Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Lafayette, Oktibbeha, Rankin, Harrison, Jackson, Winston, and Kemper counties, Mississippi. Information about these branches, the Bank's main office and its loan production office is set forth in the table below:

NAME OF OFFICE	LOCATION/ TELEPHONE NUMBER	BANKING FUNCTIONS OFFERED
Main Office	521 Main Street Philadelphia, Mississippi (601) 656-4692	Full Service; 24 Hour Teller
Eastside Branch	599 East Main Street Philadelphia, Mississippi (601) 656-4976	Full Service; 24 Hour Teller
Westside Branch	912 West Beacon Street Philadelphia, Mississippi (601) 656-4978	Full Service; 24 Hour Teller
Northside Branch	802 Pecan Avenue Philadelphia, Mississippi (601) 656-4977	Deposits; 24 Hour Teller
Union Branch	502 Bank Street Union, Mississippi (601) 774-9231	Full Service
Carthage Branch	301 West Main Street Carthage, Mississippi (601) 267-4525	Full Service
Flowood Branch	2845 Lakeland Drive Flowood, Mississippi (601) 992-7688	Deposits; Loans
Ridgeland Branch	320 Highway 51 North Ridgeland, Mississippi (601) 9519-4020	Deposits; Loans
Sebastopol Branch	24 Pine Street Sebastopol, Mississippi (601) 625-7447	Full Service; 24-Hour Teller

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DeKalb Branch	176 Main Avenue DeKalb, Mississippi (601) 743-2115	Full Service
Kosciusko Branch	775 North Jackson Avenue Kosciusko, Mississippi (662) 289-4356	Full Service; 24-hour Teller
Scooba Branch	27597 Highway 16 East Scooba, Mississippi (662) 476-8431	Full Service
Meridian Eastgate Branch	1825 Highway 39 North Meridian, Mississippi (601) 693-8367	Full Service; 24-Hour Teller
Decatur Branch	15330 Highway 15 South Decatur, Mississippi (601) 635-2321	Full Service; 24-Hour Teller
Forest Branch	247 Woodland Drive North Forest, Mississippi (601) 469-3424	Full Service; 24-Hour Teller
Louisville Main Branch	100 East Main Street Louisville, MS (662) 773-6261	Full Service; 24 Hour Teller
Louisville Industrial Branch	803 South Church Street Louisville, MS (662) 773-6261	Drive-Up
Noxapater Branch	45 East Main Street Noxapater, MS (662) 724-4261	Deposits
Starkville Branch	201 Highway 12 West Starkville, MS 39759 (662) 323-4210	Full Service; 24 Hour Teller
Collinsville Branch	9065 Collinsville Road Collinsville, MS 39325 (601) 626-7608	Full Service; 24 Hour Teller
Meridian Broadmoor	5015 Highway 493 Meridian, MS 39305 (601) 581-1541	Full Service; 24 Hour Teller

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Hattiesburg	6222 Highway 98 West Hattiesburg, MS 39402 (601) 264-4425	Full Service 24 Hour Teller
Biloxi Lemoyne	15309 Lemoyne Boulevard Biloxi, MS 39532 (228) 207-2343	Full Service; 24 Hour Teller
Biloxi Cedar Lake	1830 Popp's Ferry Road Biloxi, MS 39532 (228) 594-6913	Full Service 24 Hour Teller
Oxford Branch	902 Sisk Avenue, Suite E Oxford, MS 38655	Full Service 24 Hour Teller
Gulfport Branch	12008 Hwy 49 Gulfport, MS 39503 (228) 831-3535	Full Service 24 Hour Teller
Ocean Springs Branch	2702 Bienville Blvd Ocean Springs, MS 39564 (228) 875-3933	Full Service 24 Hour Teller
Pascagoula Branch	1519 Jackson Ave Pascagoula, MS 39567 (228) 762-3330	Full Service 24 Hour Teller

The Bank owns its offices, except for the Flowood Branch, Gulfport Branch and the Oxford Branch, each of which is leased. The main office facility, originally occupied in 1966, is used solely by the Company and the Bank. This facility contains approximately 20,000 square feet and houses the executive offices and all operations-related departments of the Company. The other branches range in size from nearly 1,000 square feet to 12,000 square feet.

ITEM 3. LEGAL PROCEEDINGS.

There are no material pending legal proceedings, other than routine litigation incidental to their business, to which either the Company or the Bank is a party or to which any of their property is subject.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Information required in partial response to this Item 5 can be found under the heading “Market Price and Dividend Information” in the 2020 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

The information appearing under the caption “Equity Compensation Plan Information” in Item 12 of this Annual Report on Form 10-K is incorporated herein by reference.

There were no unregistered sales of equity securities not covered by the filing of a Form 10-Q or Form 8-K during the period covered by this filing. On July 26, 2017, the Company’s Board of Directors authorized the repurchase of up to 200,000 shares of the Company’s outstanding shares of common stock over the next thirty-six months. There were no repurchases of equity securities not covered by the filing of a Form 10-Q or Form 8-K during the period covered by this filing.

ITEM 6. SELECTED FINANCIAL DATA.

Information required in response to this Item 6 can be found under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2020, 2019 and 2018 - Selected Financial Data” in the 2020 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Information required in response to this Item 7 can be found under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2020, 2019 and 2018” in the 2020 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information required in response to this Item 7A can be found under the headings “Quantitative and Qualitative Disclosures about Market Risk” in the 2020 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information required in response to this Item 8 can be found under the heading “Consolidated Financial Statements” and “Quarterly Financial Trends” in the 2020 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The management of this Company, with the participation of its principal executive and financial officers, has evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a – 15(e) and 15d – 15(e) of the Securities Exchange Act of 1934, as amended, in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, including ensuring that such information is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, the Company’s principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2020 (the end of the period covered by this Annual Report on Form 10-K).

Management’s Annual Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm

Information required in response to this item can be found under the headings “Management’s Assessment of Internal Control over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” in the Company’s Consolidated Financial Statements contained in its 2020 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There were no changes to the internal control over financial reporting in the fourth quarter of 2020 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required in partial response to this Item 10 can be found under the heading “Executive Officers of the Registrant” in Item 1, “Business,” and under the headings “Stock Ownership” and “Board of Directors” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 19, 2021, relating to its 2021 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Code of Ethics

The Company has adopted a Code of Ethics and Code of Conduct in compliance with Item 406 of Regulation S-K for the Company’s principal executive officer, principal financial officer, principal accounting officer and controller. Copies of both the Code of Ethics and the Code of Conduct can be found on the Company’s website: <http://www.citizensholdingcompany.com>. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics and the Code of Conduct by posting information on the Company’s website at the address specified above.

ITEM 11. EXECUTIVE COMPENSATION.

Information required in response to this Item 11 can be found under the headings “Board of Directors,” “Executive Officers and Executive Compensation,” “Report of the Compensation Committee,” and “Compensation Committee Interlocks and Insider Participation” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 19, 2021, relating to its 2021 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information required in partial response to this Item 12 can be found under the heading “Stock Ownership” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 19, 2021, relating to its 2021 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2020.

Equity Compensation Plan Information

<u>Plan category</u>	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
Equity compensation plans approved by security holders ⁽¹⁾	19,500	\$19.42	270,000
Equity compensation plans not approved by security holders	-0-	\$ 0.00	-0-
Total	19,500	\$19.42	270,000

⁽¹⁾ Consists of the 1999 Directors' Stock Compensation Plan and the 2013 Incentive Compensation Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information required in response to this Item 13 can be found under the heading "Board of Directors" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 19, 2021, relating to its 2021 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information required in response to this Item 14 can be found under the heading "Proposal No. 3, Appointment of HORNE LLP as the Company's Independent Registered Public Accounting Firm" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 19, 2021, relating to its 2021 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements

1. Consolidated Financial Statements and Supplementary Information for years ended December 31, 2018, 2019 and 2020, which include the following:
 - (i) Report of Independent Registered Public Accounting Firm (Financial Statements and Internal Control)
 - (ii) Management’s Assessment of Internal Control over Financial Reporting
 - (iii) Consolidated Statements of Condition
 - (iv) Consolidated Statements of Income
 - (v) Consolidated Statements of Comprehensive Income
 - (vi) Consolidated Statements of Changes in Stockholders’ Equity
 - (vii) Consolidated Statements of Cash Flows
 - (viii) Notes to Consolidated Financial Statements
2. Financial Statement Schedules

None.
3. Exhibits required by Item 601 of Regulation S-K

Exhibit Number	Description of Document	Incorporated by Reference			SEC File No.
		Form	Filing Date	Exhibit Number	
2.1	Agreement and Plan of Merger, dated as of May 21, 2019, by and among Citizens Holding Company, The Citizens Bank of Philadelphia and Charter Bank	8-K	May 21, 2019	2.1	000-25221
3(i)	Restated Articles of Incorporation of Citizens Holding Company	10-Q	May 10, 2017	3(A)	000-25221
3(ii)	Second Amended and Restated Bylaws of Citizens Holding Company, as amended	10-Q	May 10, 2017	3(B)	000-25221
4	Description of Common Stock				000-25221
10(a)	Directors’ Deferred Compensation Plan - Form of Agreement †	10/A	June 21, 1999	10	000-25221
10(b)	Citizens Holding Company 1999 Directors’ Stock Compensation Plan †	10/A	June 21, 1999	10(A)	000-25221
10(c)	Citizens Holding Company 1999 Employees’ Long-Term Incentive Plan †	10/A	June 21, 1999	10(B)	000-25221
10(d)	Change in Control Agreement dated December 10, 2002 between Citizens Holding Company and Greg L. McKee †	10-K	March 31, 2003	10(D)	000-25221
10(e)	Supplemental Executive Retirement Plan †	10-K	March 16, 2005	10(F)	000-25221
10(f)	Citizens Holding Company 2013 Incentive Compensation Plan †	DEF-14A	March 21, 2013	A	000-25221
10(g)	Form of Incentive Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.1	000-25221

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Exhibit Number	Description of Document	Incorporated by Reference			SEC File No.
		Form	Filing Date	Exhibit Number	
10(h)	Form of Non-Qualified Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.2	000-25221
10(i)	Form of Restricted Share Award Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.3	000-25221
10(j)	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.4	000-25221
10(k)	Form of Voting Agreement, between Citizens Holding Company and certain shareholders of Charter Bank (included as an exhibit to the Agreement and Plan of Merger attached as Exhibit 2.1)	8-K	May 21, 2019	2.1	000-25221
13	2020 Annual Report to Shareholders +				000-25221
14	Code of Ethics ±	10-K	March 26, 2004		000-25221
21	Subsidiaries of Citizens Holding Company +				000-25221
23	Consent of Independent Registered Public Accounting Firm +				
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer +				000-25221
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer +				000-25221
32.1	Section 1350 Certification of Chief Executive Officer ++				000-25221
32.2	Section 1350 Certification of Chief Financial Officer ++				000-25221
101	XBRL Exhibits +				000-25221

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K

+ Filed herewith

++ Furnished herewith

± As updated on Citizens Holding Company's website, <http://www.citizensholdingcompany.com>

ITEM 16. FORM 10-K SUMMARY.

The Company has elected not to include summary information.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS HOLDING COMPANY

Date: March 12, 2021

By: /s/ Greg McKee
Greg McKee
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacity and on the dates indicated:

SIGNATURES	CAPACITIES	DATE
<u>/s/ Greg McKee</u> Greg McKee	Director, President and Chief Executive Officer (Principal Executive Officer)	March 12, 2021
<u>/s/ Phillip R. Branch</u> Phillip R. Branch	Treasurer, Chief Financial Officer (Principal Financial & Accounting Officer)	March 12, 2021
<u>/s/ Craig Dungan</u> Craig Dungan, MD	Director	March 12, 2021
<u>/s/ Don L. Fulton</u> Don L. Fulton	Director	March 12, 2021
<u>/s/ Donald L. Kilgore</u> Donald L. Kilgore	Director	March 12, 2021
<u>/s/ David A. King</u> David A. King	Director	March 12, 2021
<u>/s/ Herbert A. King</u> Herbert A. King	Chairman of the Board	March 12, 2021
<u>/s/ Adam Mars</u> Adam Mars	Director	March 12, 2021

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<u>/s/ David P. Webb</u> David P. Webb	Director	March 12, 2021
<u>/s/ Jane Crosswhite</u> Jane Crosswhite	Director	March 12, 2021
<u>/s/ Terrell E. Winstead</u> Terrell E. Winstead	Director	March 12, 2021
<u>/s/ Gregory E. Cronin</u> Gregory E. Cronin	Director	March 12, 2021

Exhibit 4 – Description of Common Stock

As of December 31, 2020, the only class of securities of the Company registered under Section 12 of the Securities Exchange Act of 1934 is our common stock, no par value (“common stock”). The following summary of our common stock is based on and qualified by our Restated Articles of Incorporation (the “articles of incorporation”), our Bylaws, as amended (the “bylaws”) and applicable provisions of Mississippi law, including the Mississippi Business Corporation Act. This summary is not complete. For a complete description of the terms and provisions of our common stock refer to the certificate of incorporation and bylaws both of which are filed as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2020, which is filed with the Securities and Exchange Commission.

COMMON STOCK

We have authorized 22,500,000 shares of common stock, \$.20 par value. The common stock is listed on the Nasdaq Global Select Market. Its symbol is “CIZN.”

Dividend Rights

Holders of common stock are entitled to receive such dividends, if any, as may be declared by our Board of Directors, in its discretion, out of funds legally available therefore.

Voting Rights

Holders of common stock are entitled to one vote per share on all matters to be voted on by our shareholders, including the election of directors. Under the Mississippi Business Corporation Act, an affirmative vote of the majority of the shareholders present at a meeting is sufficient in order to take most shareholder actions. Certain extraordinary actions, such as mergers and share exchanges, require the affirmative vote of a majority of the shares entitled to vote.

Liquidation Rights

In the event of the liquidation of the Company, the holders of common stock are entitled to receive pro rata any assets distributed to shareholders with respect to their shares, after payment of all debts and payments to holders of our preferred stock, if any.

Preemptive Rights

Holders of common stock have no right to subscribe to additional shares of capital stock that may be issued by us.

Liability for Calls and Assessments

The outstanding shares of common stock are fully paid and non-assessable.

Other Information

Holders of common stock have no conversion, redemption or call rights related to their shares.

Anti-Takeover Provisions Under Our Articles of Incorporation and Bylaws

Our articles of incorporation and bylaws contain provisions that may delay, deter or inhibit a future acquisition of us not approved by our Board of Directors. Such a result could occur even if our shareholders are offered an attractive value for their shares or even if a majority of our shareholders believe the takeover is in their best interest.

For example, our articles of incorporation authorize our Board of Directors to issue authorized and unissued shares of common stock without shareholder approval or to issue a series of preferred stock without any further approval from our shareholders, with the designations, preferences and relative rights, qualifications, limitations or restrictions, as the Board of Directors determines in its discretion.

Our bylaws include restrictions on the ability of a shareholder to call a special shareholder meeting and also establish advance notice procedures for the nomination of candidates for election to the Board of Directors by persons other than the Board of Directors and require that such a shareholder provide detailed information about the nominee and satisfy certain other conditions.

These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions are intended to encourage any person interested in acquiring us to negotiate with and obtain the approval of our Board of Directors in connection with any such transaction.

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Exhibit 13 – 2020 Annual Report to Shareholders

CITIZENS HOLDING COMPANY

Philadelphia, Mississippi

Consolidated Financial Statements

As of December 31, 2020 and 2019 and for the
Years Ended December 31, 2020, 2019 and 2018

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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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, are in conformity with accounting principles generally accepted in the United States of America.

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

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Allowance for Loan Losses

As described in Notes 1 and 7 to the financial statements, the Company's allowance for loan losses is a valuation allowance that reflects the Company's estimation of incurred losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The allowance for loan losses was \$4,735,000 at December 31, 2020, which consists of two components; the allowance for loans individually evaluated for impairment ("specific reserves") and the allowance for loans collectively evaluated for impairment ("general reserves").

The Company's general reserves include reserves based on historical charge-off factors and qualitative general reserve factors. The component for qualitative general reserve factors involves an evaluation of items which are not yet reflected in the factors for historical charge-offs including changes in: lending policies and procedures, economic and business conditions, nature and volume of the portfolio, lending staff, volume and severity of delinquent loans, loan review systems, collateral values, and concentrations of credit. The evaluation of these items results in qualitative general reserve factors, which contribute significantly to the general reserve component of the estimate of the allowance for loan losses.

We identified management's estimate of the aggregate effect of the qualitative reserve factors on the allowance for loan losses as a critical audit matter as it involved subjective auditor judgment. Management's determination of qualitative general reserve factors involved especially subjective judgment because management's estimate relies on qualitative analysis to determine the quantitative impact the items have on the allowance.

The primary procedures we performed to address this critical audit matter included:

Evaluated the design and tested the operating effectiveness of controls over the determination of items used to estimate the qualitative general reserve factors, including controls addressing:

- The data used as the basis for the adjustments relating to qualitative general reserve factors.
- Management's determination of loans excluded from qualitative general reserve factors calculation.
- Management's review of the qualitative and quantitative conclusions related to the qualitative general reserve factors and the resulting allocation to the allowance.

Substantively tested the general reserves related to qualitative general reserve factors which primarily included:

- Evaluation of the completeness and accuracy of data inputs used as a basis for the adjustments relating to the qualitative general reserve factors.
- Evaluation of loans excluded from the qualitative general reserve calculation for propriety of classification.
- Evaluation of the reasonableness of management's judgments related to the qualitative and quantitative assessment of the data used in the determination of qualitative general reserve factors and the resulting allocation to the allowance. Our evaluation considered the weight of confirming and disconfirming evidence from internal and external sources, loan portfolio performance and third-party data, and whether management's assumptions were applied consistently period to period.

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/s/ HORNE LLP

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

Memphis, Tennessee
March 12, 2021

[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.

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Citizens Holding Company
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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, 2020, 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, 2020, the Company's system of internal control over financial reporting was effective.

/s/ Greg L. McKee

/s/ Phillip R. Branch

Greg L. McKee
President and Chief Executive Officer

Phillip R. Branch
Treasurer and Chief Financial Officer

March 12, 2021

CITIZENS HOLDING COMPANY
Consolidated Statements of Financial Condition
December 31, 2020 and 2019
(in thousands, except share data)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and due from banks	\$ 16,840	\$ 15,937
Interest bearing deposits with other banks	25,468	58,557
Federal funds sold	—	1,600
Securities available for sale, at fair value	678,749	464,383
Loans, net of allowance for loan losses of \$4,735 in 2020 and \$3,755 in 2019	647,521	573,312
Bank premises, furniture, fixtures and equipment, net	25,630	24,672
Other real estate owned, net	3,073	3,552
Accrued interest receivable	5,983	4,181
Cash surrender value of life insurance	25,814	25,088
Deferred tax assets	1,548	3,684
Identifiable intangible assets, net	13,660	13,856
Other assets	6,406	6,612
Total assets	<u>\$1,450,692</u>	<u>\$1,195,434</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing deposits	\$ 276,033	\$ 190,406
Interest bearing deposits	819,156	708,590
Total deposits	1,095,189	898,996
Securities sold under agreement to repurchase	196,272	170,410
Federal Home Loan Bank (FHLB) advances	25,000	—
Accrued interest payable	522	1,128
Deferred compensation payable	9,665	9,453
Other liabilities	4,496	2,647
Total liabilities	<u>1,331,144</u>	<u>1,082,634</u>
Shareholders' equity		
Common stock, \$.20 par value, authorized 22,500,000 shares; 5,587,070 shares issued and outstanding at December 31, 2020 and 5,578,131 shares issued and outstanding at December 31, 2019	1,118	1,116
Additional paid-in capital	18,134	17,883
Accumulated other comprehensive income (loss), net of tax (expense) benefit of (\$1,376) in 2020 and \$262 in 2019	4,138	(789)
Retained earnings	96,158	94,590
Total shareholders' equity	<u>119,548</u>	<u>112,800</u>
Total liabilities and shareholders' equity	<u>\$1,450,692</u>	<u>\$1,195,434</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Income
Years Ended December 31, 2020, 2019, and 2018
(in thousands, except share and per share data)

	2020	2019	2018
Interest income			
Interest and fees on loans	\$ 30,941	\$ 24,652	\$ 20,241
Interest on securities			
Taxable	7,837	7,993	8,345
Non-taxable	1,501	1,808	2,579
Other interest	282	908	193
Total interest income	40,561	35,361	31,358
Interest expense			
Deposits	6,556	7,719	2,811
Other borrowed funds	871	2,003	1,648
Total interest expense	7,427	9,722	4,459
Net interest income	33,134	25,639	26,899
Provision for loan losses	(1,485)	(573)	(334)
Net interest income after provision for loan losses	31,649	25,066	26,565
Non-interest income			
Service charges on deposit accounts	3,352	4,413	4,562
Other service charges and fees	3,606	3,129	2,879
Net gains on sales of securities	829	191	11
Other income	2,673	2,015	1,148
Total non-interest income	10,460	9,748	8,600
Non-interest expense			
Salaries and employee benefits	17,476	14,883	14,530
Occupancy expense	4,156	2,099	2,017
Equipment expense	3,204	3,146	3,713
Other expense	8,590	7,430	7,404
Total non-interest expense	33,426	27,558	27,664
Income before income taxes	8,683	7,256	7,501
Income tax expense	1,752	1,354	828
Net income	\$ 6,931	\$ 5,902	\$ 6,673
Net income per share – basic	\$ 1.24	\$ 1.17	\$ 1.36
Net income per share – diluted	\$ 1.24	\$ 1.17	\$ 1.36
Weighted average shares outstanding			
Basic	5,577,352	5,063,736	4,889,420
Diluted	5,579,916	5,066,103	4,899,218

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2020, 2019, and 2018
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 6,931	\$ 5,902	\$ 6,673
Other comprehensive income (loss)			
Unrealized holding gains (losses) on available-for-sale securities	7,394	19,093	(8,982)
Income tax effect	(1,845)	(4,764)	2,240
Net unrealized gains (losses)	<u>5,549</u>	<u>14,329</u>	<u>(6,742)</u>
Reclassification adjustment for gains included in net income	(829)	(191)	(11)
Income tax effect	<u>207</u>	<u>48</u>	<u>3</u>
Net gains included in net income	<u>(622)</u>	<u>(143)</u>	<u>(8)</u>
Total other comprehensive income (loss)	<u>4,927</u>	<u>14,186</u>	<u>(6,750)</u>
Comprehensive income (loss)	<u>\$ 11,858</u>	<u>\$ 20,088</u>	<u>\$ (77)</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, 2020, 2019, and 2018
(in thousands, except share data)

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2018	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
Net income	—	—	—	—	6,931	6,931
Dividends paid (\$0.96 per share)	—	—	—	—	(5,363)	(5,363)
Options exercised	5,189	1	85	—	—	86
Restricted stock granted	8,250	2	(2)	—	—	—
Restricted stock forfeited	(4,500)	(1)	1	—	—	—
Stock compensation expense	—	—	167	—	—	167
Other comprehensive income, net	—	—	—	4,927	—	4,927
Balance, December 31, 2020	<u>5,587,070</u>	<u>\$ 1,118</u>	<u>\$ 18,134</u>	<u>\$ 4,138</u>	<u>\$96,158</u>	<u>\$119,548</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019, and 2018
1 of 2
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Net income	\$ 6,931	\$ 5,902	\$ 6,673
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,121	912	937
Amortization of premiums and accretion of discounts on investment securities, net	7,286	5,294	3,283
Stock compensation expense	167	163	170
Provision for loan losses	1,485	573	334
Gain on sale of securities	(829)	(191)	(11)
Gain from death benefit proceeds on BOLI	—	(371)	—
Gain on sale of fixed assets	(74)	—	—
Net gain on sale of other real estate owned	(105)	(311)	—
Deferred income tax expense	498	459	973
Writedown on other real estate owned	230	—	—
(Increase) decrease in accrued interest receivable	(1,802)	382	285
Increase in cash surrender value life insurance	(726)	(709)	(771)
(Decrease) increase in accrued interest payable	(606)	166	273
Increase in deferred compensation liability	212	400	432
Net change in other operating assets and liabilities	255	(722)	(407)
Net cash provided by operating activities	<u>14,043</u>	<u>11,947</u>	<u>12,171</u>
Cash flows from investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	237,705	59,189	40,964
Proceeds from sales of securities available-for-sale	188,324	122,171	17,620
Proceeds from sale of FHLB stock	2,913	—	—
Purchases of investment securities available-for-sale	(640,289)	(160,591)	(10,550)
Decrease (increase) in federal funds sold	1,600	(1,600)	—
Death benefit proceeds from bank-owned life insurance	—	1,549	—
Purchases of bank premises, furniture, fixtures and equipment	(2,019)	(1,042)	(346)
Proceeds from sales of bank premises, furniture, fixtures and equipment	124	—	264
Proceeds from sale of other real estate owned	1,899	584	812

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CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019, and 2018
2 of 2
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net decrease (increase) in interest bearing deposits with other banks	33,089	(48,927)	(6,547)
Net cash paid in acquisition of business	—	(317)	—
Purchases of FHLB stock	(1,025)	—	(476)
Net increase in loans	<u>(77,239)</u>	<u>(44,678)</u>	<u>(24,108)</u>
Net cash (used by) provided by investing activities	<u>(254,918)</u>	<u>(73,662)</u>	<u>17,633</u>
Cash flows from financing activities			
Net increase in deposits	\$ 196,193	\$ 16,459	\$ 35,536
Net decrease in federal funds purchased	—	—	(1,500)
Net increase (decrease) in securities sold under agreement to repurchase	25,862	62,444	(34,532)
Proceeds from exercise of stock options	86	—	27
Dividends paid to shareholders	(5,363)	(4,874)	(4,706)
Net increase (decrease) increase in FHLB advances	<u>25,000</u>	<u>(8,969)</u>	<u>(30,000)</u>
Net cash provided by (used in) financing activities	<u>241,778</u>	<u>65,060</u>	<u>(35,175)</u>
Net increase (decrease) in cash and due from banks	903	3,345	(5,371)
Cash and due from banks, beginning of year	<u>15,937</u>	<u>12,592</u>	<u>17,963</u>
Cash and due from banks, end of year	<u>\$ 16,840</u>	<u>\$ 15,937</u>	<u>\$ 12,592</u>
Supplemental disclosures of cash flow information			
Cash paid for			
Interest	<u>\$ 8,033</u>	<u>\$ 9,065</u>	<u>\$ 4,186</u>
Income taxes	<u>\$ 1,539</u>	<u>\$ 685</u>	<u>\$ 410</u>
Noncash disclosures			
Issuance of common stock for acquisition of business	<u>\$ —</u>	<u>\$ 13,557</u>	<u>\$ —</u>
Real estate acquired by foreclosure	<u>\$ 1,546</u>	<u>\$ 385</u>	<u>\$ 260</u>

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and 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 Mississippi, along with southern and northern counties of Mississippi and their surrounding areas. Services are provided at multiple branch offices.

Risks and Uncertainties

The outbreak of COVID-19 has adversely impacted a broad range of industries in which the Company’s customers operate and could impair their ability to fulfill their financial obligations to the Company. The World Health Organization has declared COVID-19 to be a global pandemic indicating that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections. The spread of the outbreak has caused significant disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Company operates. While there has been no material impact to the Company’s employees to date, COVID-19 could also potentially create widespread business continuity issues for the Company.

Congress, the President, and the Federal Reserve have taken several actions designed to cushion the economic fallout. Most notably, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was signed into law at the end of March 2020 as an over \$2 trillion legislative package. The goal of the CARES Act is to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. The package also includes extensive emergency funding for hospitals and providers. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts are expected to have a material impact on the Company’s operations.

The Company’s business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. If the global response to contain COVID-19 escalates further or is unsuccessful, the Company could experience a material adverse effect on its business, financial condition, results of operations and cash flows. While it is not possible to know the full extent that the impact of COVID-19, and resulting measures to curtail its spread, will have on the Company’s operations, the Company is disclosing potentially material items of which it is aware.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Financial position and results of operations

The Company's fee income has been, and could continue to be, reduced due to COVID-19. In keeping with guidance from regulators, the Company is actively working with COVID-19 affected customers to waive fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees, ATM fees, account maintenance fees, etc. These reductions in fees are thought, at this time, to be temporary in conjunction with the length of the expected COVID-19 related economic crisis. At this time, the Company is unable to project the materiality of such an impact, but recognizes the breadth of the economic impact is likely to impact its fee income in future periods.

The Company's interest income could be reduced due to COVID-19. In keeping with guidance from regulators, the Company is actively working with COVID-19 affected borrowers to defer their payments and fees. While interest and fees will still accrue to income, through normal GAAP accounting, should eventual credit losses on these deferred payments emerge, interest income and fees accrued would need to be reversed. In such a scenario, interest income in future periods could be negatively impacted. At this time, the Company is unable to project the materiality of such an impact, but recognizes the breadth of the economic impact may affect its borrowers' ability to repay in future periods.

Capital and liquidity

While the Company believes that it has sufficient capital to withstand an extended economic recession brought about by COVID-19, its reported and regulatory capital ratios could be adversely impacted by further credit losses and loss of fee income.

The Company maintains access to multiple sources of liquidity. If an extended recession caused large numbers of the Company's deposit customers to withdraw their funds, the Company might become more reliant on volatile or more expensive sources of funding. Wholesale funding markets have remained open to us, but rates for short term funding have recently been volatile. If funding costs are elevated for an extended period of time, it could have an adverse effect on the Company's net interest margin.

Asset valuation

Currently, the Company does not expect COVID-19 to affect its ability to account timely for the assets on its consolidated statements of financial condition; however, this could change in future periods. While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, the Company does not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

COVID-19 could cause a decline in the Company's stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period. In the event that the Company concludes that all or a portion of its goodwill is impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital.

Lending operations and accommodations to borrowers

In keeping with regulatory guidance to work with borrowers during this unprecedented situation and as outlined in the CARES Act, the Company has been executing a payment deferral program for its commercial lending clients that are adversely affected by the pandemic. Depending on the demonstrated need of the client, the Company is deferring either the full loan payment or the principal component of the loan payment for 60 or 90 days. As of December 31, 2020, the Company had 9 loans with aggregate principal balances totaling \$12,258 which were modified under this guidance. In accordance with interagency guidance issued in March 2020, these short-term deferrals are not considered troubled debt restructurings.

With the passage of the Paycheck Protection Program ("PPP"), administered by the Small Business Administration ("SBA"), the Company is actively participating in assisting its customers with applications for resources through the program. PPP loans have a two-year term and earn interest at 1%. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. The Company closed 590 SBA PPP loans representing \$48,830 in funding and starting in the fourth quarter of 2020, the SBA began forgiving these loans. The Company currently has 446 loans with a total balance of \$29,523 still outstanding at December 31, 2020. It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish additional allowance for credit loss through additional credit loss expense charged to earnings.

Further, in sensitivity and service to its communities during this unprecedented time, the Company is waiving certain late payments and service charges.

Credit

The Company is working with customers directly affected by COVID-19. The Company is prepared to offer short-term assistance in accordance with regulator guidelines. As a result of the current economic environment caused by the COVID-19 virus, the Company is engaging in more frequent communication with borrowers to better understand their situation and the challenges faced, allowing it to respond proactively as needs and issues arise. Should economic conditions worsen, the Company could experience further increases in its allowance for loan losses and record additional credit loss expense. It is possible that the Company's asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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.

Segment Reporting

We have determined that all of our lending divisions meet the aggregation criteria of ASC 280, Segment Reporting, since all offer similar products and services, operate with similar processes, have similar customers and are collectively reviewed by the chief operating decision maker. No other services are material for presentation as a separate segment.

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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 held to maturity or 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.

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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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.

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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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.

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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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.

Leases

ASU 2016-02, "Leases (Topic 842)," became effective for the Company on January 1, 2019. The Company adopted FASB ASC Topic 842 utilizing the modified retrospective transition approach prescribed by ASU 2018-11, "Leases (Topic 842): Targeted Improvements". The Company did not elect to adopt the package of practical expedients, which includes reassessing whether any expired or existing contracts are or contain leases, reassessing the lease classification and reassessing initial direct costs. Also, the Company did not elect to adopt the hindsight practical expedient therefore maintaining the lease terms previously determined under FASB ASC Topic 840, "Leases". The Company made an accounting policy election to not recognize short-term leases (12 months or less) on the balance sheet. The Company accounts for the lease and nonlease components separately as such amounts are readily determinable.

Once the Company identifies and determines certain contracts are leases according to FASB ASC Topic 842, the Company classifies it as an operating or a finance lease and recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability represents the present value of the lease payments that remain unpaid as of the commencement date and the right-of-use asset is the initial lease liability recognized for the lease plus any lease payments made to the lessor at or before the commencement date as well as any initial direct costs less any lease incentives received.

The Company's operating leases primarily consist of building and land leases. The Company recognizes lease rent expense on a straight-line basis over the term of the lease contract and records it as noninterest expense in net occupancy – premises for building and land leases. The Company's amortization of the right-of-use asset is the difference between the straight-line lease expense and the interest expense recognized on the lease liability during the period. The Company's lease liabilities are measured as the present value of the remaining lease payments throughout the lease term.

In order to calculate its right-of-use assets and lease liabilities, FASB ASC Topic 842 requires the Company to use the rate of interest implicit in the lease when readily determinable. If the rate implicit in the lease is not readily determinable, the Company is required to use its incremental borrowing rate, which is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. Since the implicit interest rate for most of its building and land leases were not readily determinable, the Company used its incremental borrowing rate.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

The Company's short-term leases primarily include automated teller machines. For short-term leases, the Company recognizes lease expense on a straight-line basis over the lease term. As previously stated, the Company has elected not to include short-term leases on its balance sheet.

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.

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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. ContinuedNet 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 2020, 2019 and 2018 is illustrated in the following table.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Basic weighted average shares outstanding	5,577,352	5,063,736	4,889,420
Dilutive effect of stock options	<u>2,564</u>	<u>2,367</u>	<u>9,798</u>
Dilutive weighted average shares outstanding	<u>5,579,916</u>	<u>5,066,103</u>	<u>4,899,218</u>
Net income	<u>\$ 6,931</u>	<u>\$ 5,902</u>	<u>\$ 6,673</u>
Net income per share-basic	\$ 1.24	\$ 1.17	\$ 1.36
Net income per share-diluted	\$ 1.24	\$ 1.17	\$ 1.36

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$642, \$551 and \$640 for the years ended December 31, 2020, 2019 and 2018, 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 2019 has been reclassified to conform to the financial presentation for 2020. Such reclassifications had no effect on net income or shareholders' equity.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Stock-Based Compensation

At December 31, 2020, 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."

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, 2020 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

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the previous two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates the prior requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount. ASU 2017-04 was effective for the Corporation on January 1, 2020 and did not have a material impact on the Corporation's financial statements.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

ASU 2019-13 “Fair Value Measurement (Topic 820) – Changes in the Disclosure Requirements for Fair Value Measurement” (“ASU 2019-13”) 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 2019-13 is effective for annual and interim periods beginning after December 15, 2019. ASU 2019-13 was effective for the Corporation on January 1, 2020 and did not have a material impact on the Corporation’s financial statements.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, (“the agencies”) issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, “Receivables – Troubled Debt Restructurings by Creditors,” (“ASC 310-40”), a restructuring of debt constitutes a troubled debt restructuring (“TDR”) if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. This interagency guidance is expected to have a material impact on the Corporation’s financial statements; however, this impact cannot be quantified at this time.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 does not expect a material impact to the Company’s consolidated financial statements upon adoption.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED 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.

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	<u>\$ 20.35</u>
Value of stock paid	\$13,555
Cash consideration paid	6,110
Cash paid for fractional shares	<u>3</u>
Total Purchase Price	\$19,668
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	<u>(135)</u>
Total Net Assets Acquired	9,715
Goodwill resulting from merger	<u>\$ 9,953</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

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	<u>3,957</u>
Total assets	157,104
Deposits	126,316
Borrowings	8,969
Other liabilities	<u>2,151</u>
Total liabilities	<u>\$137,436</u>

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, 2020 and 2019 were as follows:

<u>2020</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities available-for-sale				
Obligations of U.S.				
Government agencies	\$ 11,870	\$ 191	\$ —	\$ 12,061
Mortgage-backed securities	560,033	4,550	2,600	561,983
State, County, Municipals	100,823	3,410	36	104,197
Other securities	500	8	—	508
Total	<u>\$673,226</u>	<u>\$ 8,159</u>	<u>\$ 2,636</u>	<u>\$678,749</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

<u>2019</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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>

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, 2020 and 2019.

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

<u>December 31, 2020</u>	<u>Less than 12 months</u>		<u>2 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
<u>Description of Securities</u>						
Mortgage backed securities	\$278,162	\$ 2,600	\$ —	\$ —	\$278,162	\$ 2,600
State, County, Municipal	6,541	36	—	—	6,541	36
Total	<u>\$284,703</u>	<u>\$ 2,636</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$284,703</u>	<u>\$ 2,636</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

December 31, 2019 <u>Description of Securities</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
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

The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. The Company does not intend to sell any of the securities in an unrealized loss position, and it is more likely than not that the Company will not be required to sell any such security prior to the recovery of its amortized cost basis, which may be at maturity. 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, 2020 or 2019.

The amortized cost and estimated fair value of securities at December 31, 2020, 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Securities AFS		
Due in one year or less	\$ —	\$ —
Due after one year through five years	3,594	3,701
Due after five years through ten years	20,538	21,446
Due after ten years	89,061	91,619
Residential mortgage backed securities	536,215	537,027
Commercial mortgage backed securities	23,818	24,956
Total	\$ 673,226	\$ 678,749

Investment securities with fair values of \$558,955 and \$413,275 at December 31, 2020 and December 31, 2019, respectively, were pledged as collateral for public deposits and securities sold under agreement to repurchase.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Gross realized gains	\$1,656	\$414	\$171
Gross realized losses	<u>827</u>	<u>223</u>	<u>160</u>
Net realized gains	<u>\$ 829</u>	<u>\$191</u>	<u>\$ 11</u>

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 \$1,223 and \$3,083 at December 31, 2020 and December 31, 2019, respectively, and is included in other assets in the Consolidated Statements of Financial Condition. The Company purchased stock in 2020 and 2019 at the par value of \$100 per share.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Real Estate:		
Land Development and Construction ⁽¹⁾	\$ 42,677	\$ 66,428
Farmland	15,616	15,595
1-4 Family Mortgages	94,280	87,631
Commercial Real Estate	306,875	207,604
Total Real Estate Loans	<u>459,448</u>	<u>377,258</u>
Business Loans:		
Commercial and Industrial Loans ⁽²⁾	115,679	84,611
Farm Production and Other Farm Loans	541	683
Total Business Loans	<u>116,220</u>	<u>85,294</u>
Consumer Loans:		
Credit Cards	1,878	1,833
Other Consumer Loans	10,929	12,060
Total Consumer Loans	<u>12,807</u>	<u>13,893</u>
Total Gross Loans	588,475	476,445
Unearned Income	(1)	(8)
Allowance for Loan Losses	<u>(4,735)</u>	<u>(3,755)</u>
Loans, net	<u><u>\$583,739</u></u>	<u><u>\$472,682</u></u>

(1) Reclassifications to other loan segments due to changes in loan risk characteristics that occurred in 2020.

(2) Includes PPP loans of \$29,523 and \$-0- as of December 31, 2020 and December 31, 2019, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

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 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 \$88,986 and \$77,700 of the loans outstanding at December 31, 2020 and 2019, 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 2020 is presented in the following table.

Balance outstanding at December 31, 2019	\$ 387
Principal additions	690
Principal reductions	<u>(231)</u>
Balance outstanding at December 31, 2020	<u>\$ 846</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

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 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:

	<u>2020</u>	<u>2019</u>
Real Estate:		
Land Development and Construction	\$ 308	\$ 111
Farmland	287	232
1-4 Family Mortgages	1,809	2,160
Commercial Real Estate	<u>5,600</u>	<u>9,082</u>
Total Real Estate Loans	8,004	11,585
Business Loans:		
Commercial and Industrial Loans	413	338
Farm Production and Other Farm Loans	<u>9</u>	<u>10</u>
Total Business Loans	422	348
Consumer Loans:		
Other Consumer Loans	<u>33</u>	<u>60</u>
Total Consumer Loans	<u>33</u>	<u>60</u>
Total non-accrual Loans	<u>\$8,459</u>	<u>\$11,993</u>

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 \$383, \$555 and \$429 in 2020, 2019 and 2018, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 5. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2020 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	\$ 112	\$ —	\$ 112	\$ 42,565	\$ 42,677	\$ —
Farmland	183	75	258	15,358	15,616	—
1-4 Family Mortgages	1,301	246	1,547	92,733	94,280	—
Commercial Real Estate	1,407	700	2,107	304,768	306,875	—
Total Real Estate Loans	3,003	1,021	4,024	455,424	459,448	—
Business Loans:						
Commercial and Industrial Loans	97	405	502	115,177	115,679	5
Farm Production and Other Farm Loans	2	—	2	539	541	—
Total Business Loans	99	405	504	115,716	116,220	5
Consumer Loans:						
Credit Cards	25	9	34	1,844	1,878	9
Other Consumer Loans	66	—	66	10,863	10,929	—
Total Consumer Loans	91	9	100	12,707	12,807	9
Total Loans	\$ 3,193	\$ 1,435	\$ 4,628	\$583,847	\$588,475	\$ 14

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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 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	\$ 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, 2020, 2019 and 2018

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:

2020	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	\$ 308	\$ 256	\$ 52	\$ 308	\$ 13	\$ 210
Farmland	111	111	—	111	—	182
1-4 Family Mortgages	1,016	1,012	4	1,016	1	928
Commercial Real Estate	6,021	3,323	2,504	5,827	768	7,808
Total Real Estate Loans	7,456	4,702	2,560	7,262	782	9,127
Business:						
Commercial and Industrial	413	54	359	413	125	279
Total Business Loans	413	54	359	413	125	279
Total Loans	<u>\$ 7,869</u>	<u>\$ 4,756</u>	<u>\$ 2,919</u>	<u>\$ 7,675</u>	<u>\$ 907</u>	<u>\$ 9,405</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

2019	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
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	<u>\$12,852</u>	<u>\$ 6,999</u>	<u>\$ 4,136</u>	<u>\$ 11,135</u>	<u>\$ 682</u>	<u>\$ 10,721</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

The Company did not have any new troubled debt restructurings as of December 31, 2020, 2019, and 2018, respectively.

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

	<u>Number of Loans</u>	<u>Recorded Investment</u>
Total at January 1, 2018	3	\$ 3,047
Reductions due to:		
Principal paydowns		(265)
Total at December 31, 2018	<u>3</u>	<u>2,782</u>
Reductions due to:		
Principal paydowns		(287)
Total at December 31, 2019	<u>3</u>	<u>2,495</u>
Reductions due to:		
Principal paydowns		(382)
Total at December 31, 2020	<u><u>3</u></u>	<u><u>\$ 2,113</u></u>

The allocated allowance for loan losses attributable to restructured loans was \$-0- at December 31, 2020 and 2019, respectively.

The Company had no commitments to lend additional funds on these troubled debt restructurings at December 31, 2020.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

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 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, 2020.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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, 2020:

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 41,775	\$ 120	\$ 782	\$ —	\$—	\$ 42,677
Farmland	14,801	95	720	—	—	15,616
1-4 Family Mortgages	85,203	3,210	5,867	—	—	94,280
Commercial Real Estate	258,339	35,769	12,767	—	—	306,875
Total Real Estate Loans	400,118	39,194	20,136	—	—	459,448
Business Loans:						
Commercial and Industrial Loans	109,525	4,409	1,738	—	7	115,679
Farm Production and Other Farm Loans	512	—	20	—	9	541
Total Business Loans	110,037	4,409	1,758	—	16	116,220
Consumer Loans:						
Credit Cards	1,845	—	33	—	—	1,878
Other Consumer Loans	10,820	43	41	25	—	10,929
Total Consumer Loans	12,665	43	74	25	—	12,807
Total Loans	\$522,820	\$43,646	\$ 21,968	\$ 25	\$ 16	\$588,475

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2020	2019
Real Estate:		
Land Development and Construction	\$ 6,153	\$ 14,722
Farmland	520	510
1-4 Family Mortgages	23,306	35,952
Commercial Real Estate	24,237	32,436
Total Real Estate Loans	54,216	83,620
Business Loans:		
Commercial and Industrial Loans	7,871	14,153
Farm Production and Other Farm Loans	755	884
Total Business Loans	8,626	15,037
Consumer Loans:		
Other Consumer Loans	940	1,973
Total Consumer Loans	940	1,973
Total Gross Loans	63,782	100,630
Total Purchased Loans	<u>\$ 63,782</u>	<u>\$ 100,630</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 6. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2020 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	\$ 332	\$ —	\$ 332	\$ 5,821	\$ 6,153	\$ —
Farmland	—	—	—	520	520	—
1-4 Family Mortgages	401	—	401	22,905	23,306	—
Commercial Real Estate	—	—	—	24,237	24,237	—
Total Real Estate Loans	733	—	733	53,483	54,216	—
Business Loans:						
Commercial and Industrial Loans	849	—	849	7,022	7,871	—
Farm Production and Other Farm Loans	—	—	—	755	755	—
Total Business Loans	849	—	849	7,777	8,626	—
Consumer Loans:						
Credit Cards	—	—	—	—	—	—
Other Consumer Loans	35	—	35	905	940	—
Total Consumer Loans	35	—	35	905	940	—
Total Loans	\$ 1,617	\$ —	\$ 1,617	\$62,165	\$63,782	\$ —

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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	1,575	—	1,575	82,045	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, 2020 or 2019.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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, 2020:

	1,2,3,4	5,6	7	8	9	Loans
Real Estate:						
Land Development and Construction	\$ 5,364	\$ 766	\$ 23	\$ —	\$ —	\$ 6,153
Farmland	357	163	—	—	—	520
1-4 Family Mortgages	21,116	1,655	535	—	—	23,306
Commercial Real Estate	22,469	1,484	284	—	—	24,237
Total Real Estate Loans	49,306	4,068	842	—	—	54,216
Business Loans:						
Commercial and Industrial Loans	7,121	397	353	—	—	7,871
Farm Production and Other Farm Loans	755	—	—	—	—	755
Total Business Loans	7,876	397	353	—	—	8,626
Consumer Loans:						
Other Consumer Loans	862	29	35	—	14	940
Total Consumer Loans	862	29	35	—	14	940
Total Loans	\$ 58,044	\$ 4,494	\$ 1,230	\$ —	\$ 14	\$ 63,782

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 6. 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	\$ 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, 2020, 2019 and 2018

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:

	<u>2020</u>	<u>2019</u>
Real Estate:		
Land Development and Construction	\$ 8	\$ 43
1-4 Family Mortgages	25	706
Total Real Estate Loans	33	749
Business Loans:		
Commercial and Industrial Loans	305	—
Total Business Loans	305	—
Total PCD Loans	<u>\$ 338</u>	<u>\$ 749</u>

Non-accrual loans of \$25 and 33 are included in the 1-4 Family Mortgages at December 31, 2020 and 2019, respectively.

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Continued

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

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

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, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Continued

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

	2020	Real Estate	Business Loans	Consumer	Total
Beginning Balance		\$3,075	\$ 371	\$ 309	\$3,755
Provision for loan losses		1,072	422	(9)	1,485
Chargeoffs		384	229	104	717
Recoveries		122	47	43	212
Net chargeoffs		<u>262</u>	<u>182</u>	<u>61</u>	<u>505</u>
Ending Balance		<u>\$3,885</u>	<u>\$ 611</u>	<u>\$ 239</u>	<u>\$4,735</u>
Period end allowance allocated to:					
Loans individually evaluated for impairment		\$ 782	\$ 125	\$ —	\$ 907
Loans collectively evaluated for impairment		3,103	486	239	3,828
Ending Balance		<u>\$3,885</u>	<u>\$ 611</u>	<u>\$ 239</u>	<u>\$4,735</u>
	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		<u>1</u>	<u>98</u>	<u>91</u>	<u>190</u>
Ending Balance		<u>\$3,075</u>	<u>\$ 371</u>	<u>\$ 309</u>	<u>\$3,755</u>
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		<u>\$3,075</u>	<u>\$ 371</u>	<u>\$ 309</u>	<u>\$3,755</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Continued

2018	Real Estate	Business Loans	Consumer	Total
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	<u>\$ 2,845</u>	<u>\$ 222</u>	<u>\$ 305</u>	<u>\$ 3,372</u>
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	<u>\$ 2,845</u>	<u>\$ 222</u>	<u>\$ 305</u>	<u>\$ 3,372</u>

The Company's recorded investment in loans as of December 31, 2020 and 2019 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:

2020	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	\$ 7,262	\$ 413	\$ —	\$ 7,675
Loans collectively evaluated for impairment	506,368	124,128	13,748	644,244
Acquired with deteriorated credit quality	33	305	—	338
	<u>\$513,663</u>	<u>\$124,846</u>	<u>\$ 13,748</u>	<u>\$652,257</u>
2019	Real Estate	Business Loans	Consumer	Total
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>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Continued

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Real Estate:			
Land Development and Construction	\$ (6)	\$ (18)	\$ 56
Farmland	—	—	3
1-4 Family Mortgages	243	32	51
Commercial Real Estate	25	(13)	(198)
Total Real Estate Loans	<u>262</u>	<u>1</u>	<u>(88)</u>
Business Loans:			
Commercial and Industrial Loans	182	98	12
Total Business Loans	<u>182</u>	<u>98</u>	<u>12</u>
Consumer Loans:			
Credit Cards	39	34	36
Other Consumer Loans	22	57	21
Total Consumer Loans	<u>61</u>	<u>91</u>	<u>57</u>
Total Net Chargeoffs (Recoveries)	<u>\$505</u>	<u>\$190</u>	<u>\$ (19)</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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, 2020 and December 31, 2019:

	<u>2020</u>	<u>2019</u>
Land and buildings	\$33,651	\$33,791
Furniture, fixtures and equipment	7,105	8,447
	<u>40,756</u>	<u>42,238</u>
Less accumulated depreciation	<u>15,126</u>	<u>17,566</u>
Total	<u>\$25,630</u>	<u>\$24,672</u>

Depreciation expense for the years ended December 31, 2020, 2019 and 2018, respectively, was \$1,012, \$899, and \$937.

The Company leases certain premises and equipment under operating leases. At December 31, 2020, the Company had lease liabilities and ROU assets totaling \$2,339 related to these leases. Lease liabilities and ROU assets are reflected in other liabilities and other assets, respectively. For the year ended December 31, 2020, the weighted average remaining lease term for operating leases was .6 years and the weighted average discount rate used in the measurement of operating lease liabilities was 5.58%.

Lease costs were as follows:

<i>(in thousands)</i>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Operating lease cost	\$ 473	\$ 370
Short-term lease cost	23	23
Variable lease cost	—	—
	<u>\$ 496</u>	<u>\$ 393</u>

There were no sale and leaseback transactions, leverage leases or lease transactions with related parties during the year ended December 31, 2020 and 2019.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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:

	<u>December 31, 2020</u>
Lease payments due:	
Within one year	\$ 2,177
After one year but within two years	139
After two years but within three years	2
After three year but within four years	—
After four years but within five years	—
After five years	—
Total undiscounted cash flows	<u>2,318</u>
Discount on cash flows	21
Total lease liability	<u>\$ 2,339</u>

Note 9. Goodwill and Other Intangible Assets

(in thousands)

Changes in the carrying amount of goodwill during the years ended December 31, 2020 and 2019 were as follows:

	<u>Total</u>
Balance at December 31, 2018	\$ 3,150
Addition to goodwill from Charter acquisition	9,953
Balance at December 31, 2019	13,103
Measurement period adjustment to goodwill from charter acquisition	(73)
Balance at December 31, 2020	<u>\$13,030</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 performed a goodwill impairment test for 2020 and concluded that the fair value of Charter acquisition substantially exceeded the book value and no impairment charge was required.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Continued

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

	<u>2020</u>	<u>2019</u>
Core deposit intangible	\$ 739	\$766
Accumulated amortization	(109)	(27)
Total finite-lived intangible assets	<u>\$ 630</u>	<u>\$739</u>

Core deposit intangible amortization expense for the years ended December 31, 2020, 2019 and 2018 was \$109, \$27 and \$-0-, respectively. The estimated amortization expense of finite-lived intangible assets for the five succeeding fiscal years is summarized as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 109
2022	109
2023	109
2024	109
2025	109
Thereafter	85
	<u>\$ 630</u>

Note 10. Deposits

(in thousands)

The composition of deposits as of December 31, 2020 and December 31, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Non-interest bearing	\$ 276,033	\$190,406
NOW and money market accounts	480,650	369,354
Savings deposits	104,869	83,065
Time deposits, \$250,000 or more	71,344	74,098
Other time deposits	162,293	182,073
Total	<u>\$1,095,189</u>	<u>\$898,996</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Continued

The scheduled maturities of time deposits at December 31, 2020 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$151,033
2022	48,684
2023	17,603
2024	13,069
2025	3,248
	<u>\$233,637</u>

Note 11. Federal Home Loan Bank Advances

(in thousands)

Advances from the FHLB have a maturity date of January 25, 2021. Interest is payable monthly at an interest rate of 0.16%. Pursuant to collateral agreements with the FHLB, advances are collateralized by all of the Bank's FHLB stock and qualifying first mortgages and other loans. As of December 31, 2020, the balance in qualifying first mortgages and other loans was \$167,285.

There were \$25,000 and \$-0- in outstanding FHLB advances at December 31, 2020 and 2019, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

<u>Other Income</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
BOLI Insurance	\$ 506	\$ 471	\$ 495
Mortgage Loan Origination Income	1,310	320	363
Other Income	<u>857</u>	<u>1,224</u>	<u>290</u>
Total Other Income	<u>\$2,673</u>	<u>\$2,015</u>	<u>\$1,148</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:

<u>Other Operating Expense</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Advertising	\$ 642	\$ 551	\$ 640
Office Supplies	1,171	973	975
Professional fees	1,027	1,668	561
FDIC and State Assessment	669	274	350
Telephone Expense	578	501	520
Postage and Freight	548	(49)	567
Loan Collection Expense	236	286	288
Other Losses	291	73	243
Debit Card/ATM expense	612	551	471
Travel and Convention	129	200	207
Other expenses	<u>2,687</u>	<u>2,402</u>	<u>2,582</u>
Total Other Expense	<u>\$8,590</u>	<u>\$7,430</u>	<u>\$7,404</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Income Taxes

(in thousands)

Income tax expense consists of the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current payable (benefit)			
Federal	\$ 872	\$ 806	\$(181)
State	382	89	36
	<u>1,254</u>	<u>895</u>	<u>(145)</u>
Deferred tax expense	498	459	973
Income tax expense	<u>\$1,752</u>	<u>\$1,354</u>	<u>\$ 828</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Federal taxes based on statutory rate	\$1,823	\$1,524	\$1,575
State income taxes, net of federal benefit	326	145	133
Tax-exempt investment interest	(280)	(309)	(487)
Income related to bank-owned life insurance	(126)	—	—
Other, net	9	(6)	(394)
Income tax expense	<u>\$1,752</u>	<u>\$1,354</u>	<u>\$ 8,28</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Continued

At December 31, 2020 and December 31, 2019, net deferred tax assets consist of the following:

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Allowance for loan losses	\$1,181	\$ 937
Deferred compensation liability	2,485	2,488
Net operating loss carryforward	267	1,000
Other real estate owned	488	819
Acquisition fair value adjustments	76	130
Unrealized loss on securities available-for-sale	—	262
Other	206	6
Total	<u>4,703</u>	<u>5,642</u>
Deferred tax liabilities		
Premises and equipment	1,622	1,603
Unrealized gain on securities available-for-sale	1,376	—
Core deposit intangible	157	184
Other	—	171
Total	<u>3,155</u>	<u>1,958</u>
Net deferred tax asset	<u>\$1,548</u>	<u>\$3,684</u>

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, 2020, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of December 31, 2020, 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, 2017 through 2019. The Company and Bank's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2017 through 2019.

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 \$2,302, including \$241 created during 2019. The Company used \$824 of the NOL during 2020. As part of the Tax Act, the federal NOLs created by Charter during 2019 have an indefinite carryforward period.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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, 2020 and December 31, 2019, and for the years ended December 31, 2020, 2019 and 2018, is as follows:

Balance Sheets
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash ⁽¹⁾	\$ 2,197	\$ 1,736
Investment in bank subsidiary ⁽¹⁾	117,078	110,892
Other assets ⁽¹⁾	273	172
Total assets	<u>\$119,548</u>	<u>\$112,800</u>
Liabilities		
Other liabilities	\$ —	\$ —
Shareholders' equity	<u>119,548</u>	<u>112,800</u>
Total liabilities and shareholders' equity	<u>\$119,548</u>	<u>\$112,800</u>

⁽¹⁾ Fully or partially eliminates in consolidation.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Continued

Income Statements
Years Ended December 31, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest income ⁽¹⁾	\$ 2	\$ 2	\$ 2
Other income			
Dividends from bank subsidiary ⁽¹⁾	6,099	11,242	3,990
Equity in undistributed earnings gain (loss) of bank subsidiary ⁽¹⁾	1,260	(4,965)	3,022
Other income	—	—	—
Total other income	<u>7,359</u>	<u>6,277</u>	<u>7,012</u>
Other expense	<u>524</u>	<u>462</u>	<u>446</u>
Income before income taxes	6,835	5,817	6,568
Income tax benefit	<u>(96)</u>	<u>(85)</u>	<u>(105)</u>
Net income	<u>\$6,931</u>	<u>\$ 5,902</u>	<u>\$6,673</u>

⁽¹⁾ Eliminates in consolidation.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Continued

Statements of Cash Flows
Years Ended December 31, 2020, 2019 and 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Net income	\$ 6,931	\$ 5,902	\$ 6,673
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed (earnings) loss of the Bank	(1,260)	4,965	(3,022)
Stock compensation expense	167	163	170
Increase in other assets	(100)	97	84
Net cash provided by operating activities	<u>5,738</u>	<u>11,127</u>	<u>3,905</u>
Cash flows from investing activities			
Net cash paid in acquisition activities	\$ —	\$ (6,113)	\$ —
Net cash used in investing activities	<u>—</u>	<u>(6,113)</u>	<u>—</u>
Cash flows from financing activities			
Dividends paid to shareholders	\$(5,363)	\$(4,874)	\$(4,706)
Proceeds from stock options	86	—	27
Net cash used in financing activities	<u>(5,277)</u>	<u>(4,874)</u>	<u>(4,679)</u>
Net increase (decrease) in cash	461	140	(774)
Cash, beginning of year	<u>1,736</u>	<u>1,596</u>	<u>2,370</u>
Cash, end of year	<u>\$ 2,197</u>	<u>\$ 1,736</u>	<u>\$ 1,596</u>

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 and December 31, 2019 approximated \$7,190 and \$5,406, 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, 2020 and December 31, 2019, commitments related to unused lines of credit were \$138,185 and \$94,009, respectively, and standby letters of credit were \$4,565 and \$2,436, 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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 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, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2020, 2019 and 2018, the Company's contributions were \$712, \$605 and \$590, 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 \$142, \$173 and \$194 for the plan years ended December 31, 2020, 2019 and 2018, 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 \$607, \$586 and \$535 for the plan years ended December 31, 2020, 2019 and 2018, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020, 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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Continued

As of December 31, 2020 and 2019, 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
December 31, 2020						
Citizens Holding Company						
Tier 1 leverage ratio	\$101,640	7.22%	\$70,344	5.00%	\$56,275	4.00%
Common Equity tier 1 capital ratio	101,640	7.22%	91,448	6.50%	63,310	4.50%
Tier 1 risk-based capital ratio	101,640	12.55%	64,780	8.00%	48,585	6.00%
Total risk-based capital ratio	106,375	13.14%	80,975	10.00%	64,780	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$ 99,170	7.05%	\$70,326	5.00%	\$56,261	4.00%
Common Equity tier 1 capital ratio	99,170	7.05%	91,423	6.50%	63,293	4.50%
Tier 1 risk-based capital ratio	99,170	12.25%	64,759	8.00%	48,569	6.00%
Total risk-based capital ratio	103,905	12.84%	80,948	10.00%	64,759	8.00%
December 31, 2019						
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%

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020, 2019 and 2018

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, 2020:

	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	Totals
Securities available for sale				
Obligations of U.S. Government agencies	\$ —	\$ 12,061	\$ —	\$ 12,061
Mortgage-backed securities	—	561,983	—	561,983
State, County, Municipals	—	104,197	—	104,197
Other securities	—	508	—	508
	<u>\$ —</u>	<u>\$ 678,749</u>	<u>\$ —</u>	<u>\$ 678,749</u>

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 <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	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	—	60,372.00	—	60,372
	<u>\$ —</u>	<u>\$ 464,383</u>	<u>\$ —</u>	<u>\$ 464,383</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Continued

The following table presents assets measured at fair value on a nonrecurring basis during December 31, 2020 and 2019 and were still held at those respective dates:

	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<u>December 31, 2020</u>				
Impaired loans	\$ —	\$ —	\$ 2,013	\$2,013
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,013</u>	<u>\$2,013</u>
<u>December 31, 2019</u>				
Impaired loans	\$ —	\$ —	\$ 4,576	\$4,576
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,576</u>	<u>\$4,576</u>

Impaired loans with a carrying value of \$2,920 and \$5,003 had an allocated allowance for loan losses of \$907 and \$427 at December 31, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

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, 2020 and December 31, 2019:

<u>2020</u>	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value</u>
Financial assets					
Cash and due from banks	\$ 16,840	\$ 16,840	\$ —	\$ —	\$ 16,840
Interest bearing deposits with banks	25,468	25,468	—	—	25,468
Federal funds sold	—	—	—	—	—
Securities available-for-sale	678,749	—	678,749	—	678,749
Net loans	647,521	—	—	638,362	638,362
Financial liabilities					
Deposits	1,095,189	861,552	234,909	—	1,096,461
Securities Sold under Agreement to Repurchase	196,272	196,272	—	—	196,272
Federal Home Loan	—	—	—	—	—
Bank advances	25,000	25,000	—	—	25,000

<u>2019</u>	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value</u>
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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020. 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 2020 or 2019, therefore no calculations were required in 2020 or 2019 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 2020, the Company's directors received restricted stock grants totaling 8,250 shares of common stock at a then market value of \$20.49 per share and in 2019 received 7,500 shares of common stock at a then market value of \$21.53 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 2020 was \$169 and will be recognized ratably over the one-year vesting period. The grant date fair value of the shares granted in 2019 was \$161 and was recognized ratably over the one-year vesting period.

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 2020, 2019 or 2018 and no corresponding expense was recorded. Additionally, the remaining 4,500 shares of restricted stock were forfeited as of June 22, 2020, the expiration of the five-year vesting period.

During 2020 and 2019, the Company recorded expense of \$167 and \$163 related to all of the restricted shares.

At December 31, 2020, there were 8,250 shares non-vested with \$56 in unrecognized stock-based compensation expense related to the 2013 Plan.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Continued

Following is a summary of the status of the stock options remaining under the plans for the years ending December 31, 2020, 2019 and 2018:

	<u>Directors' Plan</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2018	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
Granted	—	—
Exercised	(7,500)	19.26
Expired	(13,500)	25.72
Outstanding at December 31, 2020	<u>19,500</u>	<u>\$ 19.42</u>
Options exercisable at:		
December 31, 2020	<u>19,500</u>	<u>\$ 19.42</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2020, 2019 and 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Continued

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

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>	<u>Weighted Average Price</u>	<u>Weighted Average Life Remaining</u>
\$15.01 to \$20.00	9,000	18.76	1 years, 4 months
\$20.01 to \$22.50	10,500	20.02	4 months
Total	19,500	\$ 19.42	9 months

The intrinsic value of options outstanding under the Directors' Plan at December 31, 2020 was \$29. Additionally, the total intrinsic value of options exercised during 2020 and 2019 was \$9 and \$-0-, respectively.

There were no options granted during 2020 or 2019 under the 2013 Plan.

Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2020, 2019 and 2018

(in thousands)

OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2020, 2019 and 2018. 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.

The Company has been committed to meeting the banking financial needs of its customers and communities for over 110 years. During the COVID-19 pandemic, the Company remained focused on providing support, advice and solutions to meet its customers' unique needs. As a result, the Company experienced strong revenue growth with total revenue increasing \$5,912 or 13.11% to \$51,021 at December 31, 2020 compared to \$45,109 at December 31, 2019.

Net income for the year was \$6,931, an increase of \$1,029, or 17.43% compared to \$5,902 at December 31, 2019. The majority of the increase in net income is related to an increase in net interest income partially offset by additional provision for loan losses and non-interest expense.

The Company continued to maintain and expand customer relationships as reflected by the loan growth of \$75,182 or 13.03%, and growth in deposits of \$196,193 or 21.82% to \$1,095,189 at December 31, 2020. Excluding PPP loans with a total balance of \$29,523 at December 31, 2020, total loans increased \$45,666, or 7.91%, compared to December 31, 2019.

As a result of the COVID-19 pandemic, continued low interest rates decreased the yield on the loans as well as the securities portfolio but were partially offset by lower costs on interest-bearing deposits along with an increased volume of loans, excluding PPP loans which earn 1% interest, thus further compressing our margin.

Due to the loan growth over the period, management has increased the provision for loan losses to help manage the risks of loan growth along with the additional increased credit risks related to the pandemic. All of these factors are driving the net income results and continue to be a focus of management moving forward.

During the second quarter of 2020, the Company participated as a lender in the Small Business Administration's ("SBA") and U.S. Department of Treasury's Paycheck Protection Program ("PPP") as established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The PPP loans are generally 100% guaranteed by the SBA. At December 31, 2020, the balance of PPP loans was \$29,523 and the Company had recognized \$1,172 in PPP fee income for the year ended December 31, 2020.

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The Company and Bank remain well capitalized with all capital ratios above the regulatory requirements. The Tier 1 capital ratio for the Company and Bank was 12.55% and 12.25%, respectively, at December 31, 2020. The Company's capital position reflects the consistent profitability of its diversified financial services businesses.

The Company's return on average assets ("ROA") was 0.52% in 2020, compared to 0.51% in 2019 and 0.69% in 2018. The Company's return on average equity ("ROE") was 5.88% in 2020, 6.13% in 2019 and 7.95% in 2018. During these periods, leverage capital ratios (the ratio of equity to average total assets) decreased from 9.93% in 2018 to 8.33% in 2019 to 7.22% in 2020. The ROE in 2020, 2019 and 2018 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 77.42% of 2020 earnings per share, as compared to 82.05% in 2019 and 70.59% in 2018. The leverage capital ratio of 7.05% in 2020 remains above the regulatory requirement of 5% to be considered "well capitalized" under applicable Federal Deposit Insurance Corporation (the "FDIC") guidelines for the Bank.

Management has continued its practice of maintaining excess funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefits from its strong deposit base, its highly liquid investment portfolio, and its access to funding from a variety of external funding sources such as federal funds lines and FHLB advances. Liquidity is discussed in more detail beginning on page 98 of this report under the heading, *Liquidity and Rate Sensitivity*. The Company did not have any commitments at December 31, 2020 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 outside of the pandemic. Interest rates are currently projected to remain at historical lows for 2021 to help stimulate the economy due to the COVID-19 pandemic. The Company continues to be proactive in dealing with the effects of the pandemic to its employees, customers and communities. Although the ultimate impact of the crisis cannot be accurately predicted at this point, the Company believes that it is well-capitalized and has the financial stability to continue to serve its customers and communities during this unprecedented time.

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.

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

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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.

Please refer to Note 1, “Nature of Business and 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, and 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 including, but not limited to, the negative impacts and disruptions resulting from the COVID-19 pandemic;
- 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.

NET INCOME

Net income for 2020 increased by 17.43% to \$6,931 or \$1.24 per share-basic and -diluted, from \$5,902 or \$1.17 per share-basic and -diluted for 2019. The provision for loan losses for 2020 was \$1,485 as compared to \$573 in 2019. The increases in the provision for loan losses in each quarter of 2020 compared to the same quarters in 2019 are primarily a result of the stable loan growth during the year along with qualitative adjustments for uncertainty of market conditions brought about by the COVID-19 pandemic. Non-interest income increased by \$712, or 7.30%, and non-interest expense increased by \$5,868 or 21.29%, in 2020. Non-interest income for 2020 increased primarily due to the result of increase in mortgage loan origination income due to a decrease in long-term mortgages rates, increase in gains from security sales to lower the Company's prepayment risk within the Company's mortgage-backed securities portfolio, partially offset by a decrease in overdraft income due to the savings trend related to the COVID-19 pandemic. Non-interest expense increased mainly due to an increase in non-recurring COVID-19 safety measures such as: PPE, laptops, and branch safety measures. In addition, the Company also incurred with an increase in regulatory related expenses and core service contracts after the merger conversion in the second quarter of 2020. Also, a full year of recurring expenses from the Charter acquisition contributed to the increase of non-interest expense.

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 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.

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Net interest income on a tax equivalent basis was \$33,699, \$29,897 and \$27,806 for the years 2020, 2019 and 2018, respectively. Net interest margin was 2.72%, 2.77% and 3.05% for the same periods. During 2020, the yields on interest earning assets and the rates paid on interest bearing deposits decreased. In 2020 as compared to 2019, interest-bearing assets increased by \$156,334, or 14.50% and interest-bearing liabilities increased by \$109,494, or 12.76%. For the year ended December 31, 2020, the average yield on earnings assets was 3.33%, a decrease of 44 basis points compared to the average yield at December 31, 2019. The average rate paid on interest-bearing liabilities was 0.76%, a decrease of 50 basis points compared to the average rate at December 31, 2019.

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 this three-year period, loans outstanding increased in 2018, 2019 and 2020. Loans generally provide the Company with yields that are greater than the yields on typical investment securities.

Table 1 – 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, 2020, 2019 and 2018.

TABLE 1 – AVERAGE BALANCE SHEETS AND INTEREST RATES
(in thousands)

	Average Balance			Income/Expense			Average Yield/Rate		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Loans:									
Loans, net of unearned ⁽¹⁾	\$ 622,309	\$ 560,888	\$417,624	\$30,980	\$29,427	\$20,287	4.98%	5.25%	4.86%
Investment Securities									
Taxable	498,016	388,490	376,392	7,837	7,993	8,345	1.57%	2.06%	2.22%
Tax-exempt	69,591	78,843	107,906	2,027	2,423	3,445	2.91%	3.07%	3.19%
Total Investment Securities	567,607	467,333	484,298	9,864	10,416	11,790	1.74%	2.23%	2.43%
Federal Funds Sold and Other	45,305	50,666	9,253	250	854	157	0.55%	1.69%	1.70%
Total Interest Earning Assets ⁽¹⁾⁽²⁾	1,235,221	1,078,887	911,175	41,094	40,697	32,234	3.33%	3.77%	3.54%
Non-Earning Assets	101,292	85,683	69,971						
Total Assets	<u>\$1,336,513</u>	<u>\$1,164,570</u>	<u>\$981,146</u>						
Deposits:									
Interest-bearing Demand Deposits ⁽³⁾	\$ 449,828	\$ 381,635	\$325,192	\$ 3,062	\$ 3,468	\$ 1,131	0.68%	0.91%	0.35%
Savings	93,886	79,886	79,281	111	130	113	0.12%	0.16%	0.14%
Time	231,832	274,597	191,836	3,351	5,226	1,536	1.45%	1.90%	0.80%
Total Deposits	775,546	736,118	596,309	6,524	8,824	2,780	0.84%	1.20%	0.47%
Borrowed Funds									
Short-term Borrowings	192,017	121,951	116,787	871	1,976	1,648	0.45%	1.62%	1.41%
Long-term Borrowings	—	—	—	—	—	—	0.00%	0.00%	0.00%
Total Borrowed Funds	192,017	121,951	116,787	871	1,976	1,648	0.45%	1.62%	1.41%
Total Interest-Bearing Liabilities ⁽³⁾	967,563	858,069	713,096	7,395	10,800	4,428	0.76%	1.26%	0.62%
Non-Interest Bearing Liabilities									
Demand Deposits	236,881	192,672	164,682						
Other Liabilities	14,294	17,534	10,208						
Shareholders' Equity	117,775	96,295	93,160						
Total Liabilities and Shareholders' Equity	<u>\$1,336,513</u>	<u>\$1,164,570</u>	<u>\$981,146</u>						
Interest Rate Spread							<u>2.56%</u>	<u>2.51%</u>	<u>2.92%</u>
Net Interest Margin				<u>\$33,699</u>	<u>\$29,897</u>	<u>\$27,806</u>	<u>2.72%</u>	<u>2.77%</u>	<u>3.05%</u>
Less									
Tax Equivalent Adjustment				<u>565</u>	<u>654</u>	<u>906</u>			
Net Interest Income				<u>\$33,134</u>	<u>\$29,243</u>	<u>\$26,900</u>			

(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 1 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 2 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2020, 2019, and 2018.

TABLE 2 – NET AVERAGE INTEREST EARNING ASSETS

	2020	(in thousands) 2019	2018
Average interest earning assets	\$1,235,221	\$1,078,887	\$911,175
Average interest bearing liabilities	967,563	858,069	713,096
Net average interest earning assets	<u>\$ 267,658</u>	<u>\$ 220,818</u>	<u>\$198,079</u>

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Table 3 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2018 through 2020. 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% and a state tax rate of 5% in 2020 and 2019, respectively.

TABLE 3 – VOLUME/RATE ANALYSIS

	(in thousands) 2020 Change from 2019			2019 Change from 2018		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$3,222	(1,669)	\$ 1,553	\$6,959	\$ 2,181	\$ 9,140
Taxable securities	2,253	(2,454)	(201)	268	(620)	(352)
Non-Taxable securities	(284)	(67)	(351)	(928)	(94)	(1,022)
Federal funds sold and other	(90)	(514)	(604)	703	(6)	697
TOTAL INTEREST INCOME	\$5,101	\$(4,704)	\$ 397	\$7,002	\$ 1,461	\$ 8,463
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 620	(1,026)	(406)	\$ 196	\$ 2,141	2,337
Savings deposits	23	(42)	(19)	1	16	17
Time deposits	(814)	(1,061)	(1,875)	663	3,027	3,690
Short-term borrowings	1,135	(2,241)	(1,106)	73	255	328
TOTAL INTEREST EXPENSE	\$ 964	\$(4,370)	(3,406)	\$ 933	\$ 5,439	6,372
NET INTEREST INCOME	\$4,137	\$(334)	\$ 3,803	\$6,070	\$(3,979)	\$ 2,091

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 remained stable for the year even with the negative economic impact of the COVID-19 pandemic. Although the Company continues to face intense competition for available loans from other financial institutions, the Company was able, in 2020 and 2019, to increase the amount of loans outstanding. Additionally, the PPP loans added a significant amount of loans to the Company's portfolio in 2020. The overall loan demand in the Company's operating markets has been stable in certain sectors. Commercial, financial and agricultural has seen the most growth with an increase of 31.95%, or \$114,305, in 2020, by 25.3%, or \$77,353, in 2019 and by 6.6%, or \$17,653, in 2018. Included in this portfolio segment is the Company's PPP loans of \$29,523. 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 decreased by 3.63%, or \$4,430 in 2020 and increased by 37.4%, or \$33,267, in 2019, and decreased by 7.5%, or \$7,177, in 2018 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 2020 and 2018 years reflects the weakness in some of the Company's local housing markets coupled with increased competition in the mortgage market.

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Real estate construction loans decreased by \$32,366, or (39.86%) in 2020 to \$48,831 when compared to the \$81,197 at December 31, 2019 and increased by \$7,697 or 18.71% when compared to 2018. Of the overall decrease for the year, the Company had a reclassification of \$54,023 from real estate construction to other loan segments. Real estate construction loans are usually short term in nature and are dependent on construction activity in the Company's service area. Demand was stable for construction loans during the 2020 fiscal year despite the impact due to the COVID-19 pandemic.

Consumer loans decreased by \$2,327 or 14.48% in 2020 and increased by \$2,054 or 14.6% in 2019, and decreased by \$1,969, or 12.3% in 2018, compared to the prior years. The Company believes the COVID-19 pandemic has caused a pause of consumer spending due to the economic impact of the pandemic.

Table 4 – 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 4 – LOANS OUTSTANDING
(in thousands)

	AT DECEMBER 31,				
	2020	2019	2018	2017	2016
Commercial, financial and agricultural	\$472,094	\$357,789	\$285,420	\$267,767	\$253,581
Real estate - construction	48,831	81,197	41,134	25,923	23,793
Real estate - mortgage	117,584	122,014	88,747	95,925	97,812
Consumer	13,748	16,075	14,021	15,990	19,466
TOTAL LOANS	\$652,257	\$577,075	\$429,322	\$405,605	\$394,652

Table 5 – 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 5 – LOAN LIQUIDITY
LOAN MATURITIES AT DECEMBER 31, 2020

	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	Total
Commercial, financial and agricultural	\$ 69,949	\$305,828	\$ 96,317	\$472,094
Real estate - construction	10,457	33,946	4,428	\$ 48,831
Real estate - mortgage	20,330	76,059	21,195	\$117,584
Consumer	5,202	8,065	481	\$ 13,748
Total loans	\$105,938	\$423,898	\$122,421	\$652,257

SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$487,792	\$ 75,479
Variable rates	39,569	49,417
Total loans	<u>\$527,361</u>	<u>\$124,896</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 2020, 2019 and 2018. The ratio of net loans charged off to average loans was 0.08% in 2020, 0.03% in 2019 and 0.00% in 2018. 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 2020 was an expense of \$1,485 compared to an expense of \$573 in 2019 and an expense of \$334 in 2018. 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. Additionally, during the second quarter of 2020 management made qualitative adjustments for the uncertainty of market conditions brought about by the COVID-19 pandemic that contributed to a majority of the provision increase coupled with stable loan growth. The Company uses a model that takes into

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account historical charge-offs and recoveries and applies that to certain loan segments of the Company's portfolio. At the end of 2020, the total allowance for loan losses was \$4,735, 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 6 – 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 6 – ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(in thousands except for percentage amounts)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
BALANCE AT BEGINNING OF YEAR	\$ 3,755	\$ 3,372	\$ 3,019	\$ 3,903	\$ 6,474
LOANS CHARGED-OFF					
Commercial, financial and agricultural	272	176	35	166	2,397
Real estate - construction	37	—	74	112	—
Real estate - mortgage	304	46	133	57	179
Consumer	<u>104</u>	<u>138</u>	<u>146</u>	<u>102</u>	<u>65</u>
TOTAL CHARGE-OFFS	<u>717</u>	<u>360</u>	<u>388</u>	<u>437</u>	<u>2,641</u>
CHARGE-OFFS RECOVERED					
Commercial, financial and agricultural	65	91	219	2	18
Real estate - construction	43	18	19	14	18
Real estate - mortgage	61	14	81	16	24
Consumer	<u>43</u>	<u>47</u>	<u>88</u>	<u>64</u>	<u>75</u>
TOTAL RECOVERIES	<u>212</u>	<u>170</u>	<u>407</u>	<u>96</u>	<u>135</u>
Net loans charged-off	505	190	(19)	341	2,506
Additions charged to operating expense	<u>1,485</u>	<u>573</u>	<u>334</u>	<u>(543)</u>	<u>(65)</u>
BALANCE AT END OF YEAR	<u>\$ 4,735</u>	<u>\$ 3,755</u>	<u>\$ 3,372</u>	<u>\$ 3,019</u>	<u>\$ 3,903</u>
Loans, net of unearned, at year end	\$652,256	\$577,067	\$429,277	\$406,605	\$394,051
Ratio of allowance to loans at year end	0.73%	0.65%	0.79%	0.74%	0.99%
Average loans - net of unearned	\$622,805	\$561,483	\$418,136	\$395,217	\$409,367
Ratio of net loans charged-off to average loans	0.08%	0.03%	0.00%	0.09%	0.61%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	AT DECEMBER 31,				
	2020	2019	2018	2017	2016
Commercial, financial and agricultural	\$3,576	\$2,692	\$2,295	\$1,550	\$2,139
Real estate - construction	267	192	139	120	402
Real estate - mortgage	653	566	417	821	770
Consumer	239	305	521	528	592
Total	\$4,735	\$3,755	\$3,372	\$3,019	\$3,903

COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2020	2019	2018	2017	2016
Commercial, financial and agricultural	72.38%	62.00%	66.48%	66.02%	64.25%
Real estate - construction	7.49%	14.07%	9.58%	6.39%	6.03%
Real estate - mortgage	18.03%	21.14%	20.67%	23.65%	24.78%
Consumer	2.11%	2.79%	3.27%	3.94%	4.93%
	100.00%	100.00%	100.00%	100.00%	100.00%

Loan balances outstanding, as illustrated in Table 4, increased in 2020 even though the Company maintained tight credit standards and the negative economic impact of the COVID-19. All loan segments decreased from 2019 except for the commercial, financial and agricultural loan segment. In 2019 as compared to 2018, all loan segments increased primarily due to the acquisition of Charter coupled with solid organic growth. 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 7 – 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, 2020 was 0.47% compared to 0.62% in 2019. OREO decreased in 2020 after increasing in 2019 due to sales of several parcels in 2020 partially offset by foreclosures in 2020.

Loans on non-accrual status amounted to \$8,484 in 2020 as compared to \$12,026 in 2019 and \$9,839 in 2018. Interest income forgone on loans classified as non-accrual in 2020 was \$383 as compared to \$555 in 2019 and \$429 in 2018. 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 7 – NON-PERFORMING ASSETS
(in thousands, except percentages)

	As of December 31,				
	2020	2019	2018	2017	2016
PRINCIPAL BALANCE					
Non-accrual	\$ 8,484	\$12,026	\$ 9,839	\$ 7,582	\$ 8,879
Accruing loans 90 days or more past due	14	274	73	807	206
Troubled debt restructurings	2,113	2,495	2,782	3,047	3,288
TOTAL NON-PERFORMING LOANS	\$10,611	\$14,795	\$12,694	\$11,436	\$12,373
Income on non-accrual loans not recorded	\$ 395	\$ 555	\$ 429	\$ 413	\$ 652
Non-performing as a percent of loans	1.63%	2.56%	2.96%	2.82%	3.14%
Other real estate owned	\$ 3,073	\$ 3,552	\$ 3,440	\$ 3,980	\$ 4,443
OREO as a percent of loans	0.47%	0.62%	0.80%	0.98%	1.13%
Allowance as a percent of non-performing loans	44.62%	25.38%	26.56%	26.40%	31.54%

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 2020, 2019 and 2018 were \$7,675, \$11,135 and \$10,305, respectively.

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This table details the impaired loans by category for years ending 2020, 2019 and 2018.

	AT DECEMBER 31,		
	2020	2019	2018
Commercial, financial and agricultural	\$6,659	\$10,296	\$ 9,153
Real estate - mortgage	1,016	839	1,152
Total loans	\$7,675	\$11,135	\$10,305

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, 2020, loans totaling \$25,146 were included on the Company’s watch list compared to \$30,756 at December 31, 2019. 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, 2020, 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 8 – Securities and Securities Maturity Schedule summarizes the amortized cost of securities from 2018 through 2020 and the maturity distribution at December 31, 2020, by classification.

TABLE 8 – SECURITIES
(in thousands)

	2020	2019	2018
SECURITIES AVAILABLE-FOR-SALE			
U. S. Government Agencies	\$ 11,870	\$ 97,400	\$ 99,366
Mortgage Backed Securities	560,033	308,310	259,742
State, County and Municipal Obligations	100,823	59,724	105,591
Other Securities	500	—	—
TOTAL SECURITIES AVAILABLE-FOR-SALE	<u>\$673,226</u>	<u>\$465,434</u>	<u>\$464,699</u>

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	\$ —	—	\$ —	—	\$ 6,903	2.31%	\$ 4,967	1.74%
Mortgage Backed Securities ⁽¹⁾	—	—	4,749	2.50%	19,857	1.34%	535,427	0.14%
State, County and Municipal ⁽²⁾	—	—	3,594	3.26%	13,635	2.68%	83,594	2.50%
Other Securities	—	—	—	—	—	—	500	—
TOTAL AVAILABLE-FOR-SALE	<u>\$ —</u>	<u>—</u>	<u>\$8,343</u>	<u>2.83%</u>	<u>\$40,395</u>	<u>1.96%</u>	<u>\$624,488</u>	<u>0.47%</u>

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

⁽²⁾ 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 2020. This change is not used in the Tier 1 capital calculation.

As detailed in Table 8, the security portfolio increased \$207,792 or 44.64% in 2020, increased \$735 or 0.02% in 2019 and decreased \$51,307 or (9.9%) in 2018. 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 decreased in 2020 as a result of low

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interest rates and increases in other deposit products as a result of the COVID-19 pandemic. Time deposits increased in 2019 and 2018 due to an increase in rates paid by the Company caused by competition in our operating markets.

A three-year schedule of average deposits by type and maturities of time deposits greater than \$250 is presented in Table 9 – Deposit Information.

TABLE 9 – DEPOSIT INFORMATION
(in thousands, except percentages)

	2020		2019		2018	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$ 236,881		\$192,672		\$164,682	
Interest-bearing demand	449,828	0.68%	381,635	0.91%	325,192	0.35%
Savings	93,886	0.12%	79,886	0.16%	79,281	0.14%
Time deposits	<u>231,832</u>	<u>1.44%</u>	<u>274,597</u>	<u>1.90%</u>	<u>191,836</u>	<u>0.80%</u>
	<u>\$1,012,427</u>	<u>0.84%</u>	<u>\$928,790</u>	<u>1.20%</u>	<u>\$760,991</u>	<u>0.47%</u>

MATURITY RANGES OF TIME DEPOSITS
OF \$250 OR MORE

	AS OF DECEMBER 31, 2020
3 months or less	\$ 16,789
3 through 12 months	35,167
1 year to 3 years	11,166
over 3 years	<u>8,222</u>
	<u>\$ 71,344</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 10 - SHORT-TERM BORROWINGS
(in thousands)

	2020	As of December 31, 2019	2018
Short-term borrowings			
Year-end balance	\$221,272	\$170,410	\$107,966
Weighted average rate	0.39%	1.05%	1.20%
Maximum month-end balance	\$265,177	\$181,347	\$140,115
Year to date average balance	\$192,017	\$121,951	\$116,787
Weighted average rate	0.45%	1.62%	1.41%

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, 2020, the Company had the capacity to borrow up to \$167,285 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, 2020 the Company had borrowed \$25,000 from the FHLB and \$-0- in Federal Funds Purchased. At December 31, 2019, the Company had borrowed \$-0- from the FHLB and \$-0- in Federal Funds Purchased. In 2020, the balances in Securities Sold Under Agreement to Repurchase increased \$25,862, or 15.18% to \$196,272. In 2019, these balances increased to \$170,410, an increase of \$62,444, or 57.8%.

At the end of 2020, the Company had \$-0- in long-term debt to the FHLB for advances or any other institution.

NON-INTEREST INCOME AND EXPENSE

Table 11 - Non-Interest Income and Expense illustrates the Company's non-interest income and expense from 2018 through 2020 and percentage changes between such years.

TABLE 11 - NON-INTEREST INCOME & EXPENSE
(in thousands)

	2020	% CHANGE FROM '19	2019	% CHANGE FROM '18	2018
NON-INTEREST INCOME					
Service charges on deposit accounts	\$ 3,352	-24.04%	\$ 4,413	-3.27%	\$ 4,562
Other operating income	7,108	33.23%	5,335	32.12%	4,038
TOTAL NON-INTEREST INCOME	<u>\$10,460</u>	<u>7.30%</u>	<u>\$ 9,748</u>	<u>13.35%</u>	<u>\$ 8,600</u>
NON-INTEREST EXPENSE					
Salaries and employee benefits	\$17,476	17.42%	\$14,883	2.43%	\$14,530
Occupancy expense, including equipment	7,360	40.32%	5,245	-8.46%	5,730
Other operating expense	8,590	15.61%	7,430	0.35%	7,404
TOTAL NON-INTEREST EXPENSE	<u>\$33,426</u>	<u>21.29%</u>	<u>\$27,558</u>	<u>-0.38%</u>	<u>\$27,664</u>

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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 2020 as compared to 2019, non-interest income increased by \$712, or 7.30%. An increase in other operating income mainly attributed to increases in mortgage loan origination income and net gains on sales of securities, partially offset by a decrease in overdraft income.

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 service charges on deposits.

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 2020 as compared to 2019, non-interest expense increased by \$5,868, or 21.29%, to \$33,426. Included in this increase was an increase in occupancy expense of \$2,115 or 40.32%. Additionally, an increase in salaries and benefits in the amount of \$2,593, or 17.42%, and other expense in the amount of \$1,160, or 15.61%. The increase in occupancy expense was primarily due to non-recurring COVID-19 safety measures such as: PPE, laptops, and branch safety measures. In addition, the Company also incurred an increase in regulatory related expenses and core service contracts after the merger conversion in the second quarter of 2020. The increase in salaries and benefits was due to the Charter acquisition October 1, 2019.

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 on October 1, 2019.

In 2020, the Company's efficiency ratio was 78.29%, compared to 77.88% in 2019 and 75.99% in 2018. 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 \$1,548 is considered realizable and no valuation allowance is considered necessary.

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The Company's effective tax rate was 20.18%, 18.66% and 11.04% in 2020, 2019 and 2018, respectively. The major difference between the effective tax rate applied to the Company's financial statement income and the federal statutory rate of 21% in 2020, 2019 and 2018, respectively, is interest on tax-exempt securities and loans. 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 2020 as compared to 2019, 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 \$25,000 of FHLB advances outstanding at year end. 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 \$678,749 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, 2020, both the ALCO and the Board of Directors determined that the Company's liquidity position was adequate.

Table 12 - Funding Uses and Sources details the main components of cash flows for 2020 and 2019.

TABLE 12 - FUNDING USES AND SOURCES
 (in thousands)

	2020			2019		
	Average Balance	Increase/ (decrease) Amount	Percent	Average Balance	Increase/ (decrease) Amount	Percent
FUNDING USES						
Loans, net of unearned income	\$ 622,309	\$ 61,421	10.95%	\$ 560,888	\$ 142,752	34.14%
Taxable securities	498,016	109,526	28.19%	388,490	12,098	3.21%
Tax-exempt securities	69,591	(9,252)	-11.73%	78,843	(29,063)	-26.93%
Federal funds sold and other	45,305	(5,361)	-10.58%	50,666	41,413	447.56%
TOTAL USES	\$1,235,221	\$156,334	14.49%	\$1,078,887	\$167,200	17.95%
FUNDING SOURCES						
Noninterest-bearing deposits	\$ 236,881	\$ 44,209	22.95%	\$ 192,672	\$ 27,990	17.00%
Interest-bearing demand and savings deposits	543,714	82,193	17.81%	461,521	57,048	14.10%
Time deposits	231,832	(42,765)	-15.57%	274,597	82,761	43.14%
Short-term borrowings	10,318	8,835	595.75%	1,483	(19,996)	-93.10%
Commercial repo	181,699	57,355	46.13%	124,344	29,036	30.47%
Long-term debt	—	—	—	—	—	—
TOTAL SOURCES	\$1,204,444	\$149,827	14.21%	\$1,054,617	\$176,839	19.36%

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.

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During 2020 as compared to 2019, total risk-based capital decreased due to assets outpacing earnings.

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, 2020, as noted below in Table 13 - Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

TABLE 13 – CAPITAL RATIOS
(in thousands, except percentage amounts)

	2020	At December 31, 2019	2018
Tier 1 capital			
Shareholders' equity	\$ 119,548	\$ 112,800	\$ 83,866
Less: Intangibles	(13,502)	(13,856)	(3,150)
Less: DTA related to NOLs	(267)	(1,000)	—
Add/less: Unrealized loss/(gain) on securities	(4,139)	789	14,975
TOTAL TIER 1 CAPITAL	\$ 101,640	\$ 98,733	\$ 95,691
Total capital			
Tier 1 capital	\$ 101,640	\$ 98,733	\$ 95,691
Allowable allowance for loan losses	4,735	3,755	3,372
TOTAL CAPITAL	\$ 106,375	\$ 102,488	\$ 99,063
RISK WEIGHTED ASSETS	\$ 809,754	\$ 712,154	\$549,828
AVERAGE ASSETS (FOURTH QUARTER)	\$1,406,885	\$1,185,397	\$963,820
TIER 1 LEVERAGE RATIO	7.22%	8.33%	9.93%
COMMON EQUITY TIER 1 CAPITAL RATIO	7.22%	8.33%	9.93%
TIER 1 RISK-BASED CAPITAL RATIO	12.55%	13.86%	17.40%
TOTAL RISK-BASED CAPITAL RATIO	13.14%	14.39%	18.02%

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

Long-term debt obligations represent borrowings from the FHLB that have an original maturity in excess of one year. The only other significant obligations, other than obligations under deposit contracts and short-term borrowing, were for operating leases for banking facilities. Operating leases are primarily for the lease of branches, ATM machines and other necessary equipment. The equipment leases are for various terms.

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, 2020 (\$ in thousands):

	<u>Interest Sensitive Within</u>	
	<u>90 days</u>	<u>One year</u>
Total rate sensitive assets	\$206,190	\$305,309
Total rate sensitive liabilities	<u>258,994</u>	<u>140,107</u>
Net gap	<u>\$ (52,804)</u>	<u>\$ 165,202</u>

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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 14 - 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, 2020 and December 31, 2019.

TABLE 14 - INTEREST RATE SENSITIVITY
AS OF DECEMBER 31, 2020
(in thousands)

	2021	2022	2023	2024	2025	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$ 91,241	\$85,106	\$88,745	\$100,155	\$122,545	\$ 75,479	\$563,271	\$557,032
Average Int Rate	4.74%	3.48%	4.63%	5.14%	4.01%	4.00%	4.35%	
Floating Rate	\$ 12,223	\$ 7,700	\$ 4,469	\$ 13,150	\$ 2,027	\$ 49,417	\$ 88,986	\$ 88,986
Average Int Rate	3.52%	4.63%	3.88%	4.57%	4.49%	4.62%	4.42%	
Investment securities								
Fixed Rate	\$ 0	\$ 5,375	\$ 228	\$ 240	\$ 2,501	\$664,882	\$673,226	\$678,749
Average Int Rate	0.00%	2.41%	1.80%	1.99%	3.89%	0.56%	2.30%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate	\$ 25,468						\$ 25,468	\$ 25,468
Average Int Rate	0.98%						0.98%	
Interest-bearing deposits								
Fixed Rate	\$736,611	\$48,684	\$17,603	\$ 13,069	\$ 3,189		\$819,156	\$820,487
Average Int Rate	0.67%	1.67%	1.42%	2.04%	0.68%		1.16%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate								
Average Int Rate								
Floating Rate	\$221,272						\$221,272	\$221,272
Average Int Rate	0.39%						0.39%	

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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%	4.67%	
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%	5.68%	
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%	2.42%	
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%		0.78%	
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%	

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 15 - Rate Sensitivity Gap reflects interest-earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2020. Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 15 - RATE SENSITIVITY GAP AT DECEMBER 31, 2020
(in thousands, except percentage amounts)

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
INTEREST EARNING ASSETS					
Loans	\$ 84,899	\$ 117,177	\$ 423,500	\$ 16,372	\$ 641,948
Investment securities	95,823	188,132	233,317	157,552	674,824
Interest Bearing Due From Bank Accounts	25,468	—	—	—	25,468
Federal funds sold	—	—	—	—	—
TOTAL INTEREST BEARING ASSETS	\$ 206,190	\$ 305,309	\$ 656,817	\$ 173,924	\$ 1,342,240
INTEREST BEARING LIABILITIES					
Interest bearing demand deposits	\$ 11,387	\$ 34,161	\$ 182,189	\$ 45,547	\$ 273,284
Savings and Money Market deposits	158,263	—	224,953	204,498	587,714
Time deposits	44,717	105,946	82,917	—	233,580
Short term borrowings	44,627	—	117,764	58,882	221,273
Long term borrowings	—	—	—	—	—
TOTAL INTEREST BEARING LIABILITIES	\$ 258,994	\$ 140,107	\$ 607,823	\$ 308,927	\$ 1,315,851
Rate sensitive gap	\$ (52,804)	\$ 165,202	\$ 48,994	\$ (135,003)	\$ 26,389
Rate sensitive cumulative gap	(52,804)	112,398	161,392	26,389	—
Cumulative gap as a percentage of total earning assets	-3.93%	8.37%	12.02%	1.97%	

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.

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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, 2020. 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; and (3) approximately 19.14% of certificates of deposit maturing during 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. Due to the pandemic the Company does not believe interest rates will go any lower than the rates currently are, therefore; the Company has attempted to mitigate the impact of its interest rate position by structuring deposit rates to entice customers to lengthen the maturities of their time deposits.

The COVID-19 pandemic has significantly affected the financial markets and has resulted in a number of actions by the Federal Reserve Bank ("FRB"). Market interest rates have declined significantly. On March 3, 2020, the ten-year Treasury yield fell below 1.00% for the first time, and the FRB reduced the target federal funds rate by 50 basis points to a range of 1.00% to 1.25%. On March 15, 2020, the FRB further reduced the target federal funds rate by 100 basis points to a range of 0.00% to 0.25% and announced a \$700 billion quantitative easing program in response to the expected economic downturn caused by the COVID-19 pandemic. The FRB reduced the interest that it pays on excess reserves from 1.60% to 1.10% on March 3, 2020, and then to 0.10% on March 15, 2020. 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 an impact on the Company's earnings as we positioned our balance sheet for rising rates. 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 2020 and 2019, the Company was asset sensitive 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 2020 was 2.72% and in 2019 was 2.77% due to the aforementioned facts.

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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 1, 2021, the common stock's closing price on NASDAQ was \$20.00.

On March 1, 2021, shares of the Company's common stock were held of record by approximately 486 shareholders.

DIVIDENDS

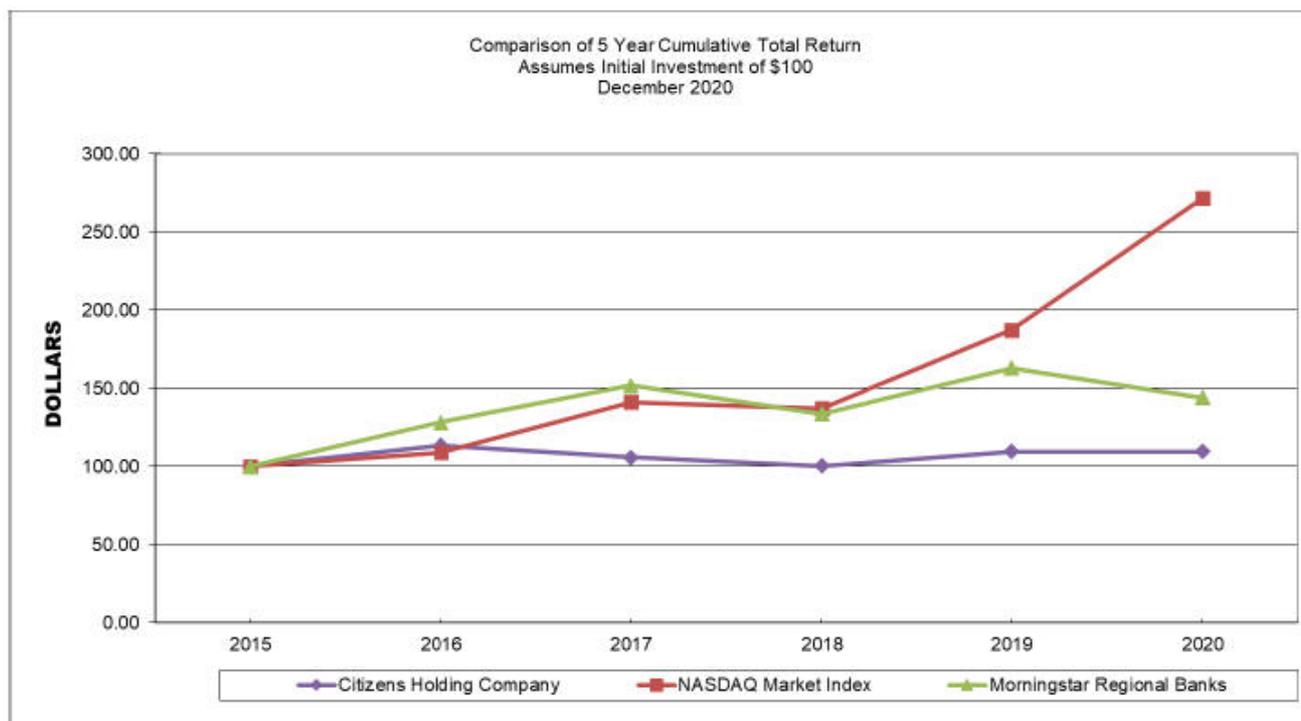
Dividends totaled \$0.96 per share for 2020 and 2019.

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, 2015 and that all dividends were reinvested.

**Performance Graph
December 31, 2015 - December 31, 2020**



	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Citizens Holding Company	100.00	113.57	105.68	100.38	109.57	109.57
NASDAQ Market Index	100.00	108.87	141.13	137.12	187.44	271.64
Morningstar Regional Banks	100.00	128.37	151.66	133.74	162.97	144.00

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

Phillip R. Branch
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

Ashley Peebles
Vice President, Director of Deposit Services

Sommer Vick
Assistant Vice President, Assistant Trust Officer

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

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

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Scooba and DeKalb Branches

Reggie Moore
Assistant Vice President, Branch Manager

Jan White
Branch Operations Officer

Forest Branch

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

Tammara Hopson,
Deposit Operations Officer

Hattiesburg Branch

Chad Hill
Vice President, Branch Manager

Tammy McAlpin
Commercial Loan Portfolio Manager

Flowood Branch

George Gammon III
Metro Jackson President

Cory Bass
Assistant Vice President, Accounting Officer

Ridgeland Branch

Daniel Webb
Assistance Vice President

Biloxi Cedar Lake and Lemoyne Branches

Travis Moore
Vice President, Regional Commercial Lender

Brandon Sherwood
Regional Commercial Lender

Tammy Warren
Assistant Vice President, Mortgage Loan Officer

Katie Hancock
Vice President, Branch Manager

Patrick Ricci
Vice President, Commercial Lender

Mandy Dawson
Treasury Management Officer

Mortgage Loan Department

Charlene Deweese
Assistant Vice President, Mortgage Loan Officer

Oxford Branch

Grant Boone
Oxford City President

Marion Boyd
Vice President, Regional Commercial Lender

Meg Smith
Branch Operations Officer

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

Julius Bosco III
Loan Compliance Officer

Pam Pierce
Human Resources Administrator

Theresa Jenkins
Community Retail Officer

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Ocean Springs Branch

Melissa Ceasar
Community Retail Officer

Sharon Wetzel
Vice President, Information Technology Officer

Reagan Bridley
Vice President, Commercial Lender

Thomas Graham
Vice President, Mortgage Loan Officer

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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

Jane Crosswhite
Executive Vice President
Williams Brothers Inc.

Terrell E. Winstead
Executive Vice President
Molpus Woodlands Group

CITIZENS HOLDING COMPANY OFFICERS

Herbert A. King
Chairman

Greg L. McKee
President and Chief Executive Officer

Mark Taylor
Secretary

Phillip R. Branch
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 Popps Ferry Road
Biloxi, MS 39532
228.594.6913

Oxford Branch
902 Sisk Avenue, Ste E
Oxford, MS 38655

Collinsville Branch
9065 Collinsville Road
Collinsville, MS 39325
601.626.7608

Flowood Branch
2845 Lakeland Drive 247
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

Gulfport Branch
12008 Hwy 49
Gulfport, MS 39503

Decatur Branch
15330 Hwy 15 South
Decatur, MS 39327
601.635.2321

Forest Branch
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

Ridgeland Branch
320 Highway 51 North
Ridgeland, MS 39157
601.519.4020

Pascagoula Branch
1519 Jackson Ave
Pascagoula, MS 39567

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BANKING LOCATIONS - Continued

Ocean Springs Branch

2702 Bienville Blvd
Ocean Springs, MS 39564

Phone Teller

1.800.397.0344

Internet and Mobile Banking

<http://www.thecitizensbankphila.com>

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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 27, 2021, 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

Phillip R. Branch
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.

Exhibit 21 – Subsidiaries of the Registrant

The following is a list of subsidiaries of the Company:

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>	<u>Approximate Percentage of Voting Securities Owned</u>
The Citizens Bank of Philadelphia, Mississippi	Mississippi	100%

Exhibit 23**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in this Annual Report on Form 10-K of Citizens Holding Company for the year ended December 31, 2020 and in the Registration Statements on Form S-8 (Nos. 333-89680 and 333-190500) of Citizens Holding Company of our report dated March 12, 2021 related to our audit of the consolidated financial statements which appear in the 2020 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Citizens Holding Company for the year ended December 31, 2020.

/s/ HORNE LLP
Memphis, Tennessee
March 12, 2021

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Greg McKee, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2021

By: /s/ Greg McKee
Greg McKee
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Phillip R Branch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Holding Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2021

By: /s/ Phillip R. Branch
Phillip R. Branch
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the "Company") for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg McKee, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 12, 2021

By: /s/ Greg McKee

Greg McKee
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the "Company") for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip R. Branch, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 12, 2021

By: /s/ Phillip R. Branch
Phillip R. Branch
Chief Financial Officer