
**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, 2004**

or

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

Commission file number: 000-25221

CITIZENS HOLDING COMPANY

(Exact Name of Registrant as Specified in Its Charter)

MISSISSIPPI
(State or Other Jurisdiction of
Incorporation or Organization)

64-0666512
(I.R.S. Employer
Identification Number)

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

39350
(Zip Code)

Registrant's telephone number, including area code: 601-656-4692

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

Title of Each Class
Common Stock, \$.20 par value

Name of Each Exchange on
Which Registered
American Stock Exchange

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

None

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

[Table of Contents](#)

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES NO

As of June 30, 2004, the aggregate market value of the registrant's common stock, \$.20 par value, held by non-affiliates of the registrant was \$86,306,808.

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

<u>Class</u>	<u>Outstanding at March 14, 2005</u>
Common stock, \$.20 par value	5,001,278 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2004 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 2005 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

[Table of Contents](#)

CITIZENS HOLDING COMPANY
FORM 10-K
INDEX

	<u>PAGE</u>
<u>PART I</u>	
ITEM 1. BUSINESS	1
ITEM 2. PROPERTIES	9
ITEM 3. LEGAL PROCEEDINGS	11
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	11
<u>PART II</u>	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	11
ITEM 6. SELECTED FINANCIAL DATA	11
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	12
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	12
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	12
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	12
ITEM 9A. CONTROLS AND PROCEDURES	12
ITEM 9B. OTHER INFORMATION	13
<u>PART III</u>	
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	13
ITEM 11. EXECUTIVE COMPENSATION	13
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	13
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	14
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	14
<u>PART IV</u>	
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	15
SIGNATURES	17

CITIZENS HOLDING COMPANY
FORM 10-K

PART I

In addition to historical information, this report contains statements which constitute forward-looking statements and information which 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 the 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 Citizens Bank of Philadelphia, Mississippi (the "Bank") include, but are not limited to, the following:

- the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Company operates;
- changes in the legislative and regulatory environment that negatively impact the Company and the Bank through increased operating expenses;
- increased competition from other financial institutions;
- the impact of technological advances;
- expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions;
- changes in asset quality and loan demand;
- expectations about overall economic strength and the performance of the economy in the Company's market area; and
- other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

The Company does not undertake any obligation to update or revise any forward-looking statements subsequent to the date on which they are made.

ITEM 1. BUSINESS

BACKGROUND

The Company is a one-bank holding company that holds 97.56% of the outstanding shares of the Bank. The Company was incorporated under Mississippi law on February 16, 1982, at the direction of the Board of Directors of the Bank in order to facilitate the Bank's adoption of a one-bank holding company structure.

Table of Contents

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, 2004, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of \$586,706,680 and total deposits of \$475,574,014. 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 of this Annual Report on Form 10-K.

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.

The Company acquired by merger CB&T Capital Corporation and Citizens Bank & Trust Company in Louisville, Mississippi, in the second quarter of 2002. This acquisition added approximately \$70 million in assets to the Company. The purchase price of the net assets totaled approximately \$12.3 million in cash and was based on a multiple of approximately 1.505 times the book value, subject to certain adjustments, of the acquired company.

In July 2001, the Company purchased two branches of Union Planters National Bank located in Forest and Decatur, Mississippi. This acquisition had the effect of adding \$30,506,745 in assets, including \$11,703,517 in loans and \$30,284,185 in deposits.

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 68.0% of gross revenues in 2004, 67.6% in 2003 and 65.3% in 2002. Such lending activities include commercial, real estate, installment (direct and indirect) and credit card loans. The Company's primary lending area is East Central Mississippi, specifically Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Winston and Kemper counties and contiguous counties. On a very limited basis, the Company extends out-of-area credit only to borrowers who are considered to be low risk. The Company is not dependent upon any customer, and it has no foreign operations.

The Company's eight county market area is mainly rural, with Meridian, population 41,036, being the largest city. Agriculture and some light industry comprise a significant portion of the economy of this area. The largest employer in the Company's service area is the Mississippi Band of Choctaw Indians; their schools, manufacturing plants and their main source of income, The Pearl River Resort (the "Resort"), generate a significant number of jobs in the area. The Resort and its related services employ approximately 5,000 people within the Company's market area.

Table of Contents

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. Historically, approximately 67.9% of the Company's loan portfolio has been attributed to this category of lending. Another 18.0% of the Company's loan portfolio is comprised of commercial, industrial and agricultural production loans. Consumer loans make up the remaining 14.1% of the total loan portfolio.

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 various Company directors, including the Chairman of the Board. All aggregate credits 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 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. However, because the Company's local economy in the past few years has been strong, with unemployment at historic lows, and is projected to remain strong in the near future, management believes that general risk levels are low.

In addition to lending services, the Company provides a wide range of personal and corporate trusts and trust-related services. The Company serves as executor of estates, as trustee under testamentary and inter vivos trusts and various pension and other employee benefit plans, as the guardian of the estates of minors and incompetents, and as escrow agent under various agreements. The Company also offers discount brokerage services through First Tennessee Bank.

Through such innovations as its VISA Checkcard program, the 24 Hour Phone Teller and its Internet site (<http://www.thecitizensbankphila.com>), the Company's customers have easy and convenient access to their funds and account balances 24 hours a day, 7 days a week. Additionally, the Internet site enables the Company's customers to review their accounts in detail, make transfers between their accounts and pay bills from anywhere in the world.

EXECUTIVE OFFICERS OF THE REGISTRANT

Greg L. McKee, who is 43 years old, 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.

Robert T. Smith, who is 53 years old, has been employed by the Bank since 1986. He has served as Senior Vice-President and Chief Financial Officer since January 2001. Prior to January 2001, Mr. Smith held the title of Vice-President and Controller from 1987 until 2001 and Assistant Vice-President from 1986 to 1987. In addition to his position with the Bank, Mr. Smith has served as Treasurer of the Company since February 1996.

[Table of Contents](#)

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; their entire salary is paid by the Bank. At December 31, 2004, the Bank employed 237 full-time employees and 42 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 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.

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%.

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 3%. The Company's leverage capital ratio at December 31, 2004 was 9.72%.

[Table of Contents](#)

Prompt Corrective Action and Other Enforcement Mechanisms.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("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 Bank are classified as well capitalized under the guidelines promulgated by the Federal Reserve Bank under their Regulation F.

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 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, 2004, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was \$55,542,000, or 9% 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, 2004, the maximum amount available for transfer from the Bank in the form of cash dividends and loans was 19% of the Bank's consolidated net assets.

FDIC Insurance Assessments.

The FDIC has established several mechanisms to increase funds to protect deposits insured by the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF"), both of which are administered by the FDIC. The Bank's deposits are insured through BIF except for those deposits the Bank acquired from the Resolution Trust Corporation in April, 1994. This acquisition consisted of one branch of the former Security Federal Savings and Loan in Kosciusko, Mississippi, and these deposits remain insured through the SAIF.

[Table of Contents](#)

Deposit insurance premiums for banks and savings associations were increased as a result of The Financial Institutions Reform, Recovery and Enforcement Act of 1989. Losses incurred by the FDIC in connection with the default or assistance of troubled federally insured financial institutions are required to be reimbursed by other federally insured financial institutions.

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 which would result in a monopoly or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking. 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 itself 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 recently amended 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. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 was enacted on November 12, 1999, and became effective on March 11, 2000. In order to qualify as a financial holding company, the Company must declare to the Federal Reserve its intention to

[Table of Contents](#)

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 of December 31, 2004, we had not elected to become a financial holding company.

Interstate Banking and Branching.

On September 29, 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Interstate Act”) was signed into law. The Interstate Act effectively permits nationwide banking by removing territorial restrictions on interstate bank mergers.

Interstate branching by merger with, or acquisition or consolidation of, banks located in different states was permitted beginning June 1, 1997, except in states that have passed legislation prior to that date “opting-out” of interstate branching. If a state opted-out prior to June 1, 1997, then banks located in that state can not participate in interstate branching. Effective May 1, 1997, Mississippi “opted in” to the interstate branching provision of the Interstate Act.

Community Reinvestment Act.

The Community Reinvestment Act of 1997, as amended (“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 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 August 21, 2001 and again most recently on August 17, 2004, for its performance under the CRA. The Bank was rated Satisfactory during both of these examinations. No discriminatory practices or illegal discouragement of applications were found.

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.

Corporate Governance.

The Sarbanes-Oxley Act of 2002 (“Sarbanes Act”) requires publicly traded companies to adhere to several directives designed to prevent corporate misconduct. 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 Section 16 insider reporting obligations, restricts certain executive officer and director transactions, imposes new obligations on corporate audit committees and provides for enhanced review by the SEC.

Table of Contents

Impact of Monetary Policies.

Banking is a business that 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. The nature and timing of any future changes in such policies and their impact on the Company cannot be predicted.

COMPETITION

The banking business is highly competitive. The Company's market area consists principally of Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Winston and Kemper counties in Mississippi. The Company also competes with other financial institutions in those counties and in surrounding counties in Mississippi in obtaining deposits 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 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 many times greater than those of the Company. In addition, new 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. Also, as a local institution, the Company believes it can provide these services faster than a larger institution.

Recent 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 Interstate Act and other recent and proposed changes in 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 fourteen different financial institutions in the Company's market area competing for the same customer base. Despite these challenges, the Company has not only been able to maintain its market share, but has actually increased its share in recent years. As of June 30, 2004, the Company's market share in its market area was approximately 17%. The Company competes in its market for loan and deposit products along with many of the other services required by today's banking customer. The Company believes it is able to compete favorably in its markets, in terms of both the rates we offer and the level of service that we provide to our customers.

[Table of Contents](#)

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 amendments thereto are not currently available on its website, <http://www.thecitizensbankphila.com>. The Company is in the process of modifying its website and, after these modifications, the Company's annual, quarterly and current reports will be available on its website. 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 Robert T. Smith, Treasurer and Chief Financial Officer, Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

ITEM 2. PROPERTIES

The Company, through the Bank, currently operates from its main office in downtown Philadelphia, and from 18 additional branches in Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Winston and Kemper counties, Mississippi. Information about these branches is set forth in the table below:

<u>NAME OF OFFICE</u>	<u>LOCATION/ TELEPHONE NUMBER</u>	<u>BANKING FUNCTIONS OFFERED</u>
Main Office	521 Main Street Philadelphia, Mississippi (601) 656-4692	Full Service; Trust
Eastside Branch	585 East Main Street Philadelphia, Mississippi (601) 656-4976	Drive-up
Westside Branch	912 West Beacon Street Philadelphia, Mississippi (601) 656-4978	Full Service; 24 Hour Teller
Northside Branch	720 Pecan Avenue Philadelphia, Mississippi (601) 656-4977	Deposits; 24 Hour Teller
Pearl River Branch	110 Choctaw Town Center Philadelphia, Mississippi (601) 656-4971	Full Service; 24 Hour Teller
Union Branch	Comer of Home & Bank Union, Mississippi (601) 774-9231	Full Service

[Table of Contents](#)

Carthage Main Office	219 West Main Street Carthage, Mississippi (601) 267-4525	Full Service
Crossroads Branch	Highways 35 & 16 Carthage, Mississippi (601) 267-4525	Drive-up
Madden Branch	Highway 488 Madden, Mississippi (601) 267-7366	Deposits
Sebastopol Branch	24 Pine Street Sebastopol, Mississippi (601) 625-7447	Full Service; 24-Hour Teller
DeKalb Branch	Comer of Main & Bell 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	1048 Johnston Street Scooba, Mississippi (662) 476-8431	Full Service
Meridian Branch	1825 Highway 39 North Meridian, Mississippi (601) 693-8367	Full Service; 24-Hour Teller
Decatur Branch	15520 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

[Table of Contents](#)

Industrial Branch	803 South Church Street Louisville, MS (662) 773-6261	Drive-Up
Noxapater Branch	45 Main Street Noxapater, MS (662) 724-4261	Deposits

The Bank owns its main office and its branch offices, except for the Pearl River branch office, 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 4,000 square feet to 1,000 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the Company's shareholders during the fourth quarter of 2004.

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 2005 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 Form 10-K is incorporated herein by reference.

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, 2004, 2003 and 2002 - Selected Financial Data" in the 2005 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.

[Table of Contents](#)

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, 2004, 2003 and 2002" in the 2005 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 heading "Quantitative and Qualitative Disclosures about Market Risk" in the 2005 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required in response to this Item 8 can be found under the heading "Consolidated Financial Statements" in the 2005 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

Within the 90 days prior to the date of this Annual Report on Form 10-K, the Company's principal executive officer and principal financial officer carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's SEC reports. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Management's Annual Report on Internal Control over Financial Reporting and Attestation 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

[Table of Contents](#)

Independent Registered Public Accounting Firm (Internal Control)” in the Company’s Consolidated Financial Statements contained in its 2005 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 controls over financial reporting in the fourth quarter of 2004 that materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required in partial response to this Item 10 can be found under the heading “Executive Officers of the Registrant” in Item 1 of this Annual Report on Form 10-K and under the headings “Stock Ownership” and “Board of Directors” in the Company’s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 23, 2005, relating to its 2005 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Code of Ethics

The Company has adopted a code of business ethics in compliance with Item 406 of Regulation S-K for the Company’s principal executive officer, principal financial officer, principal accounting officer and controller. A copy of the Company’s Code of Ethics is filed as an exhibit to this Annual Report on Form 10-K.

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,” “Compensation Committee Interlocks and Insider Participation” and “Stock Performance Graph” in the Company’s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 23, 2005, relating to its 2005 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 filed with the Securities and Exchange Commission on March 23, 2005, relating to its 2005 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

[Table of Contents](#)

Equity Compensation Plan Information

The following table provides additional information about the Company's equity compensation plans as of December 31, 2004.

Equity Compensation Plan Information

<u>Plan category</u>	<u>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))</u>
Equity compensation plans approved by security holders ⁽¹⁾	214,000	\$ 15.53	305,462 ⁽²⁾
Equity compensation plans not approved by security holders	-0-	\$ 0.00	-0-
Total	214,000	\$ 15.53	305,462

⁽¹⁾ Two equity compensation plans have been approved by the shareholders: the 1999 Directors' Stock Compensation Plan and the 1999 Employees' Long-Term Incentive Plan.

⁽²⁾ Includes 109,200 shares that remain available for future issuance under the 1999 Directors' Stock Compensation Plan. Also includes 196,262 shares available for future issuance under the 1999 Employees' Long-Term Incentive Plan ("LTIP"). Under the terms of the LTIP, the number of shares that may be issued cannot exceed 7% of the total number of shares issued and outstanding from time to time. In addition to stock options, restricted stock may be awarded under the plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required in response to this Item 13 can be found under the heading "Board of Directors" in the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 23, 2005, relating to its 2005 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT 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 filed with the Securities and Exchange Commission on March 23, 2005, relating to its 2005 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, 2002, 2003 and 2004, which include the following:

- (i) Report of Independent Registered Public Accounting Firm (Financial Statements)
- (ii) Report of Independent Registered Public Accounting Firm (Internal Control)
- (iii) Management's Assessment of Internal Control over Financial Reporting
- (iv) Consolidated Balance Sheets
- (v) Consolidated Statements of Income
- (vi) Consolidated Statements of Comprehensive Income
- (vii) Consolidated Statements of Changes in Shareholders' Equity
- (viii) Consolidated Statements of Cash Flows
- (ix) Notes to Consolidated Financial Statements

2. Financial Statement Schedules

None.

3. Exhibits required by Item 601 of Regulation S-K

- 3(i) Amended Articles of Incorporation of the Company *
- 3(ii) Amended and Restated Bylaws of the Company *
- 4 Rights Agreement between Citizens Holding Company and The Citizens Bank of Philadelphia, Mississippi *
- 10(a) Directors' Deferred Compensation Plan - Form of Agreement *†
- 10(b) Citizens Holding Company 1999 Directors' Stock Compensation Plan *†
- 10(c) Citizens Holding Company 1999 Employees' Long-Term Incentive Plan *†
- 10(d) Change in Control Agreement dated December 10, 2002 between the Company and Greg L. McKee **†
- 10(e) Summary of Consulting Agreement between the Company and Steve Webb **†
- 10(f) Supplemental Executive Retirement Plan †

[Table of Contents](#)

13	2005 Annual Report to Shareholders	
14	Code of Ethics	***
21	Subsidiaries of Registrant	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	
32.1	Section 1350 Certification of Chief Executive Officer	
32.2	Section 1350 Certification of Chief Financial Officer	

* Filed as an exhibit to the Form 10 Registration Statement of the Company (File No. 000-25221) filed on December 30, 1998 and incorporated herein by reference, and also filed as an exhibit to Amendment No. 1 to Form 10 Registration Statement of the Company (File No. 000-25221) filed on June 21, 1999 and incorporated herein by reference.

** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 000-25221) filed on March 31, 2003 and incorporated herein by reference.

*** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (File No. 000-25221) filed on March 26, 2004 and incorporated herein by reference.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) of this report.

[Table of Contents](#)

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 8, 2005

By: /s/ Greg L. McKee

Greg L. McKee
President and Chief Executive Officer

SIGNATURES

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 capacities and on the dates indicated:

<u>SIGNATURES</u>	<u>CAPACITIES</u>	<u>DATE</u>
<u>/s/ Donald L. Kilgore</u>	Director	March 8, 2005
<u>/s/ William M. Mars</u>	Director	March 8, 2005
<u>/s/ Karl Brantley</u>	Director	March 8, 2005
<u>/s/ David A. King</u>	Director	March 8, 2005
<u>/s/ Herbert A. King</u>	Director	March 8, 2005
<u>/s/ Don Fulton</u>	Director	March 8, 2005
<u>/s/ Greg L. McKee</u>	Director, President and Chief Executive Officer	March 8, 2005
<u>/s/ Robert T. Smith</u>	Treasurer and Chief Financial Officer	March 8, 2005
<u>/s/ Steve Webb</u>	Chairman of the Board	March 8, 2005

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10(f)	Supplemental Executive Retirement Plan
13	2005 Annual Report to Shareholders
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

Exhibit 10(f) – Supplemental Executive Retirement Plan

**THE CITIZENS BANK OF PHILADELPHIA, MISSISSIPPI
SALARY CONTINUATION AGREEMENT**

THIS AGREEMENT, effective as of January 1, 2004 (the “Effective Date”), is made by and between The Citizens Bank of Philadelphia, Mississippi, a state-chartered commercial bank with its principal place of business in Philadelphia, Mississippi (the “Company”), and _____ (the “Executive”).

INTRODUCTION

To encourage the Executive to remain an employee of the Company, the Company is willing to provide salary continuation benefits to the Executive. The Company will pay the benefits from its general assets.

AGREEMENT

The Executive and the Company agree as follows:

**Article 1
Definitions**

1.1 Definitions. Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1.1 “*Change of Control*” means:

(a) a change in the ownership of the capital stock of the Company or Citizens Holding Company (the “Holding Company”), whereby a corporation, person or group acting in concert (a “Person”) as described in Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), holds or acquires, directly or indirectly, beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a number of shares of capital stock of the Company or Holding Company which constitutes twenty five percent (25%) or more of the combined voting power of the Company’s or Holding Company’s outstanding capital stock then entitled to vote generally in the election of directors; or

(b) the persons who were members of the Board of Directors of the Company or Holding Company immediately prior to a tender offer, exchange offer, contested election or any combination of the foregoing, cease to constitute a majority of such Board of Directors; or

(c) the adoption and completion by the Board of Directors of the Company or of the Holding Company of a merger, consolidation or reorganization plan involving the Company or Holding Company in which the Company or the Holding Company is not the surviving entity, or a sale of all or substantially all of

the assets of the Company or Holding Company. For purposes of this Agreement, a sale of all or substantially all of the assets of the Company or Holding Company shall be deemed to occur if any Person acquires (or during the 12-month period ending on the date of the most recent acquisition by such Person, has acquired) gross assets of the Company or Holding Company that have an aggregate fair market value equal to twenty five percent (25%) of the fair market value of all of the respective gross assets of the Company or Holding Company immediately prior to such acquisition or acquisitions; or

(d) a tender offer or exchange offer is made by any Person which, if successfully completed, would result in such Person beneficially owning (within the meaning of Rule 13d-3 promulgated under the Exchange Act) either twenty five percent (25%) or more of the Company's or Holding Company's outstanding shares of Common Stock or shares of capital stock having twenty five percent (25%) or more the combined voting power of the Company's or Holding Company's then outstanding capital stock (other than an offer made by the Company or the Holding Company), and sufficient shares are acquired under the offer to cause such person to own twenty five percent (25%) or more of the voting power; or

(e) any other transactions or series of related transactions occurring which have substantially the same effect as the transactions specified in any of the preceding clauses of this Subsection (1.1.1).

1.1.1.1 "*Permitted Transfers*" means that a Shareholder, as hereinafter defined in Subsection 1.1.1.2 may make the following transfers and such transfers shall be deemed not to be a Change of Control under Subsection 1.1.1:

(a) To any trust, company, or partnership created solely for the benefit of any Shareholder or any spouse of or any lineal descendant of any Shareholder;

(b) To any individual or entity by bona fide gift;

(c) To any spouse or former spouse of any Shareholder pursuant to the terms of a decree of divorce;

(d) To any officer or employee of the Company pursuant to any incentive stock option plan established by the Shareholder;

(e) To any family member of any Shareholder;

(f) After receipt of any necessary regulatory approvals, to any company or partnership, including, but not limited to, a family limited partnership, a majority of the stock or interests of which company or partnership are owned by any of the Shareholder; or

(g) To any existing Shareholder as of the Effective Date.

1.1.2 “Code” means the Internal Revenue Code of 1986, as amended. References to a Code section shall be deemed to be to that section as it now exists and to any successor provision.

1.1.3 “Compensation” shall mean the Executive’s average base salary, not including any bonuses, for the three (3) Plan Years immediately preceding the Plan Year in which Termination of Employment occurs.

1.1.4 “Disability” means, if the Executive is covered by a Company sponsored disability income plan, drawing disability income from such plan, or, if no such disability income plan exists, then as determined by the Social Security Administration, to be a disability rendering the Executive totally and permanently disabled. The Executive must submit proof to the Company of the carrier’s or Social Security Administration’s determination upon the request of the Company.

1.1.5 “Discount Rate” means six percent (6%).

1.1.6 “Early Retirement Date” shall mean the date the Executive attains age fifty-five (55).

1.1.7 “Early Retirement Reduction Percentage” shall mean five percent (5%) multiplied by the number of whole years between the date any Termination of Employment subsequent to the Early Retirement Date occurs and the Normal Retirement Date. This Percentage shall not exceed fifty percent (50%).

1.1.8 “Initial Vested Percentage” means the product of ten percent (10%) multiplied by Years of Service Credit, which amount shall not exceed one hundred percent (100%).

1.1.9 “Normal Retirement Date” means the date the Executive attains age sixty-five (65).

1.1.10 “Plan Year” means each twelve (12) consecutive month period beginning on January 1st of each year and ending on December 31st of each year.

1.1.11 “Salary Continuation Accrual” means the amount accrued as a liability to the Executive by the Company under Generally Accepted Accounting Principles (GAAP), utilizing the “interest ramp-up” method of accounting when either Termination of Employment or Termination of the Agreement occurs.

1.1.12 “Shareholder” means the existing owners of all issued and outstanding stock of the Company and Holding Company as of the Effective Date.

1.1.13 “Termination of Employment” or “Terminates Employment” means the Executive’s ceasing to be employed by the Company for any reason whatsoever, voluntary or involuntary, other than by reason of an approved leave of absence.

1.1.14 “*Years of Service Credit*” means the whole number quotient, without rounding for fractional amounts, of a fraction with a numerator equaling the number of whole calendar years the Company has employed the Executive through December 31, 2003, and a denominator of two (2).

Article 2
Lifetime Benefits

2.1 *Normal Retirement Benefit.* If Termination of Employment occurs on or after the Normal Retirement Date, the Company shall pay to the Executive the benefit described in this Section 2.1.

2.1.1 *Amount of Benefit.* The annual benefit under this Section 2.1 shall be fifty percent (50%) of Compensation.

2.1.2 *Payment of Benefit.* Subject to the provisions of Section 3.2, the Company shall pay the annual benefit determined under subsection 2.1.1 for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following Termination of Employment. The monthly payments under this subsection 2.1.2 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

2.2 *Termination of Employment Prior to the Early Retirement Date.* Subject to the provisions of Section 2.4, if Termination of Employment occurs before the Executive’s Early Retirement Date, for reasons other than death or Disability, the Company shall pay to the Executive the benefit described in this Section 2.2.

2.2.1 *Amount of Benefit.* The benefit under this Section 2.2 is the vested portion of the Salary Continuation Accrual.

2.2.2 *Vesting Schedule.* As of the date of this Agreement, the Executive’s initial vested interest in the annual benefit described in Subsection 2.2.1 shall equal the Initial Vested Percentage. The Executive shall vest in the amount described in Section 2.2.1 at a rate of ten percent (10%) per year for each completed Plan Year from the date of this Agreement to Executive’s Termination of Employment, such that after the tenth (10th) completed Plan Year the Executive shall be one hundred percent (100%) vested in the amount described in subsection 2.2.1.

2.2.3 *Payment of Benefit.* Except as may be provided by Subsection 2.2.3.1, and subject to the provisions of Subsection 2.2.4, the Company shall pay the annual benefit determined under subsection 2.2.1 for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following the Normal Retirement Date. The monthly payments under this subsection 2.2.3 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

2.2.3.1 *Alternate Method for Payment of Benefit.* The Company, in its sole discretion and at any time prior to when a payment is otherwise due the Executive

under Subsection 2.2.3 of this Agreement, may elect to alter the timing and method of payment otherwise provided by Subsection 2.2.3. The Company shall provide the Executive detailed written notice of such alternate payment method selected by the Company under this Subsection 2.2.3.1. Relying on sound accounting and financial principles (including the Discount Rate), the Company shall determine the present value of payments otherwise due the Executive under Subsection 2.2.3 and the Company shall compare this amount to the present value, again, determined by the Company relying on sound accounting and financial principles, (including the Discount Rate). In no event shall the present value of the benefit payable to the Executive under any alternate payment method selected by the Company under this Subsection 2.2.3.1 be less than the present value of the payments otherwise due the Executive under Subsection 2.2.3. The right to elect any alternate method of payment under this Subsection 2.2.3.1 rests solely with the Company and not with the Executive.

2.2.4 Death Prior to any Required Payment under Section 2.2. In the event the Executive dies subsequent to a Termination of Employment and before receiving any payment otherwise due the Executive under this Section 2.2, the Company shall pay the Executive's designated beneficiary the annual benefit set forth in Subsection 2.2.1 per year for fifteen (15) years in lieu of any other benefit under this Agreement.

2.2.4.1 Payment of Benefit. The Company shall pay the annual benefit determined under subsection 2.2.4 to the Executive's designated beneficiary for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following the Executive's death. The monthly payments under this subsection 2.2.4 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

2.3 Disability Benefit. If Termination of Employment due to a Disability occurs prior to the Normal Retirement Date, the Company shall pay to the Executive the benefit described in this Section 2.3.

2.3.1 Amount of Benefit. The annual benefit under this Section 2.3 shall be fifty percent (50%) of Compensation.

2.3.2 Payment of Benefit. Subject to the provisions of subsection 2.3.3, the Company shall pay the annual benefit determined under subsection 2.3.1 for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following the Normal Retirement Date. The monthly payments under this subsection 2.3.2 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

2.3.3 Death During Disability. In the event the Executive dies subsequent to Termination of Employment due to Disability and prior to the Normal Retirement Date, the

Company shall pay the Executive's designated beneficiary the annual benefit set forth in subsection 2.3.1 per year for fifteen (15) years in lieu of any other benefit under this Agreement.

2.3.1.1 *Payment of Benefit.* The Company shall pay the annual benefit determined under subsection 2.3.3 to the Executive's designated beneficiary for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following the Executive's death. The monthly payments under this subsection 2.3.3 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

2.4 *Change of Control Benefit.* Upon Termination of Employment within twenty-four (24) months following a Change of Control, the Company, subject to the provisions of Section 2.4.1.1 and Section 5.3, shall pay to the Executive the benefit described in this Section 2.4 in lieu of any other benefit under this Agreement.

2.4.1 *Amount of Benefit.* The annual benefit under this Section 2.4 shall be fifty percent (50%) of Compensation.

2.4.1.1 *Excess Parachute Payment.* Notwithstanding any provision of this Agreement to the contrary, the Company shall not pay any benefit under this Agreement to the extent the benefit would be a non-deductible parachute payment under Section 280G of the Code.

2.4.2 *Payment of Benefit.* The Company shall pay the annual benefit determined under subsection 2.4.1 for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following the earlier to occur of: (i) Normal Retirement Date; or (ii) Termination of Employment within the two year period subsequent to a Change of Control. The monthly payments under this subsection 2.4.2 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

2.5 *Early Retirement Benefit.* If Termination of Employment occurs on or after the Early Retirement Date, but prior to the Normal Retirement Date, the Company shall pay to the Executive the benefit described in this Section 2.1.

2.5.1 *Amount of Benefit.* The annual benefit under this Section 2.5 shall be fifty percent (50%) of Compensation multiplied by the Early Retirement Reduction Percentage.

2.5.2 *Payment of Benefit.* Subject to the provisions of Section 3.2, the Company shall pay the annual benefit determined under subsection 2.5.1 for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following Termination of Employment. The monthly payments under this subsection 2.5.2 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

Article 3
Death Benefits

3.1 *Death During Active Service.* If the Executive dies while employed by the Company and prior to receiving any payments under this Agreement, the Company shall pay to the Executive's beneficiary the benefit described in this Section 3.1.

3.1.1 *Amount of Benefit.* The annual benefit under Section 3.1 shall be fifty percent (50%) of Compensation.

3.1.2 *Payment of Benefit.* The Company shall pay the annual benefit set forth in Section 3.1.1 to the Beneficiary for a period of fifteen (15) years, payable monthly (one-twelfth [1/12th] of the annual benefit) beginning on the last day of the month commencing with the month following the Executive's death. The monthly payments under this subsection 3.1.2 shall total one hundred eighty (180) substantially equal payments over a period of one hundred eighty (180) months.

3.2 *Death During Benefit Period.* If the Executive dies after benefit payments have commenced under this Agreement but before receiving all such payments, the Company shall pay the remaining benefits to the Executive's beneficiary at the same time and in the same amounts they would have been paid to the Executive had the Executive survived.

3.3 *Hardship.* The Company, at any time, may determine that any payments to the Executive's beneficiary under this Agreement may better serve the needs of the Executive's beneficiary if the payments were to be paid to the Executive's beneficiary in a single lump sum payment, as opposed to being paid out over a period of time. Any determination made by the Company to make a single lump sum payment to the Executive's beneficiary under this Section 3.3 shall be made in the Company's sole discretion. The amount of any lump sum payment under this Section 3.3 shall equal the present value of the remaining payments due under this Agreement. The Company shall utilize the Discount Rate to determine the present value of these remaining payments. Any lump sum payment made under this Section 3.3 shall fulfill all of the Company's obligations under this Agreement.

Article 4
Beneficiaries

4.1 *Beneficiary Designations.* The Executive shall designate a beneficiary by filing with the Company a written designation of beneficiary on a form substantially similar to the form attached as Schedule A. The Executive may revoke or modify the designation at any time by filing a new designation. However, designations will only be effective if signed by the Executive and accepted by the Company during the Executive's lifetime. The Executive's beneficiary designation shall be deemed automatically revoked if the beneficiary predeceases the Executive, or if the Executive names a spouse as beneficiary and the marriage is subsequently dissolved. If the Executive dies without a valid beneficiary designation, all payments shall be made to the Executive's surviving spouse, if any, and if none, to the Executive's surviving children and the descendants of any deceased child by right of representation, and if no children or descendants survive, to the Executive's estate.

4.2 *Facility of Payment.* If a benefit is payable to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of his or her property, the Company may pay such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person, or to a custodian selected by the Company under the Mississippi Uniform Transfers to Minors Act for the benefit of such minor. The Company may require proof of incompetency, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

Article 5
General Limitations

Notwithstanding any provision of this Agreement to the contrary, the Company shall not pay any benefit under this Agreement if any of the following occur:

5.1 *Termination for Cause.* If the Company terminates the Executive's employment for any of the following reasons:

5.1.1 Conviction in a court of competent jurisdiction of a felony; or

5.1.2 Fraud, dishonesty, embezzlement, or willful violation of any law or significant Company policy committed in connection with the Executive's employment resulting in an adverse effect on the Company.

5.2 *Suicide.* No benefits shall be payable if the Executive commits suicide within two (2) years after the date of this Agreement, or if the Executive has made any material misstatement of fact on any application for life insurance purchased by the Company.

5.3 *Golden Parachute Payment.* Notwithstanding any provision of this Agreement to the contrary, the Company shall not be required to pay any benefit under this Agreement if, upon the advice of counsel, the Company determines that the payment of such benefit would be prohibited by 12 C.F.R. Part 359 or any successor regulations regarding employee compensation promulgated by any regulatory agency having jurisdiction over the Company or its affiliates or to the extent the benefit would be a non-deductible excess parachute payment under Section 280G of the Code. To the extent possible, such benefit payment shall be proportionately reduced to allow payment within the fullest extent permissible under applicable law.

Article 6
Claims and Review Procedures

6.1 *Claims Procedure.* Any individual ("Claimant") who has not received benefits under the Plan that he or she believes should be paid shall make a claim for such benefits as follows:

6.1.1 *Initiation – Written Claim.* The Claimant initiates a claim by submitting to the Company a written claim for the benefits.

6.1.2 *Timing of Company Response.* The Company shall respond to such Claimant

within ninety (90) days after receiving the claim. If the Company determines that special circumstances require additional time for processing the claim, the Company can extend the response period by an additional ninety (90) days by notifying the Claimant, by written or electronic notification, prior to the end of the initial ninety (90) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Company expects to render its decision.

6.1.3 *Notice of Decision.* If the Company denies part or all of the claim, the Company shall notify the Claimant by written or electronic notification of such denial. The Company shall write the notification in a manner calculated to be understood by the Claimant. The notification shall set forth:

- (a) The specific reason or reasons for the denial,
- (b) A reference to the specific provisions of the Plan on which the denial is based,
- (c) A description of any additional information or material necessary for the Claimant to perfect the claim and an explanation of why it is needed,
- (d) An explanation of the Plan's review procedures and the time limits applicable to such procedures, and
- (e) A statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

6.2 *Review Procedure.* If the Company denies part or all of the claim, the Claimant shall have the opportunity for a full and fair review by the Company of the denial, as follows:

6.2.1 *Initiation – Written Request.* To initiate the review, the Claimant, within 60 days after receiving the Company's notice of denial, must file with the Company a written request for review.

6.2.2 *Additional Submissions – Information Access.* The Claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Company shall also provide the Claimant, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits.

6.2.3 *Considerations on Review.* In considering the review, the Company shall take into account all materials and information the Claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

6.2.4 *Timing of Company Response.* The Company shall respond by written or electronic notification to such Claimant within sixty (60) days after receiving the request for review. If the Company determines that special circumstances require additional time for processing the claim, the Company can extend the response period by an additional sixty

(60) days by notifying the Claimant by written or electronic notification, prior to the end of the initial sixty (60) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Company expects to render its decision.

6.2.5 *Notice of Decision.* The Company shall notify the Claimant by written or electronic notification of its decision on review. The Company shall write the notification in a manner calculated to be understood by the Claimant. The notification shall set forth:

- (a) The specific reason or reasons for the denial,
- (b) A reference to the specific provisions of the Plan on which the denial is based,
- (c) A statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits, and
- (d) A statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

6.2.6 *Rights After Appeal.* If the Claimant is dissatisfied with the Company's review of the decision, the Claimant has the right to file suit in a federal or state court, which suit must be filed within twelve (12) calendar months immediately following the date of such Company's decision. No action may be brought for benefits provided by this Agreement or to enforce any right hereunder until after a claim has been submitted to and determined by the Company and all appeal rights under the Agreement have been exhausted. This means that all claims under this Agreement must be appealed under this Agreement before any suit for benefits may be filed by the Claimant in federal or state court. Thereafter, the only action which may be brought under this Agreement is one to enforce the decision of the Company. The Claimant's beneficiary should follow the same claims procedure in the event of the Claimant's death.

6.3 *Electronic Notifications.* All notifications from the Company under this **Article 6** shall be either written or electronic. Electronic notification shall comply with standards imposed by the Company consistent with applicable guidance.

Article 7 Amendments and Termination

7.1 *Amendments.* Subject to Section 7.3, this Agreement may be amended only by a written agreement signed by the Company and the Executive.

7.2 *Termination of Agreement.* The Company may terminate this Agreement at any time prior to the Executive's Termination of Employment by written notice to the Executive. In the event of any such termination, the Company shall pay the Executive one hundred percent (100%) of the Salary Continuation Accrual as of termination of the Agreement.

7.3 *Termination by Operation of Law.* Notwithstanding the previous paragraph in this Article 7, the Company may amend or terminate this Agreement at any time if, pursuant to legislative, judicial or regulatory action, continuation of the Agreement would (i) cause benefits to be taxable to the Executive prior to actual receipt and the Executive requests such termination, or, (ii) result in significant financial penalties or other significantly detrimental ramifications to the Company (other than the financial impact of paying the benefits). In the event of a termination of the Agreement under this Section 7.2, the Company shall pay to the Executive a single lump-sum payment equaling one hundred percent (100%) of the Salary Continuation Accrual one hundred eighty (180) days from termination of the Agreement.

Article 8
Miscellaneous

8.1 *Binding Effect.* This Agreement shall bind the Executive and the Company, and their beneficiaries, survivors, executors, administrators and permitted transferees.

8.2 *No Guaranty of Employment.* This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Company, nor does it interfere with the Company's right to discharge the Executive. It also does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

8.3 *Non-Transferability.* Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached or encumbered in any manner, except in accordance with Article 4 with respect to designation of beneficiaries.

8.4 *Tax Withholding.* The Company shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

8.5 *Applicable Law.* The Agreement and all rights hereunder shall be governed by the laws of the State of Mississippi, except to the extent preempted by the laws of the United States of America.

8.6 *Unfunded Arrangement.* The Executive and beneficiary are general unsecured creditors of the Company for the payment of benefits under this Agreement. The benefits represent the mere promise by the Company to pay such benefits. The rights to benefits are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors. Any insurance on the Executive's life is a general asset of the Company to which the Executive and beneficiary have no preferred or secured claim.

8.7 *Administration.* The Company shall have powers which are necessary to administer this Agreement, including but not limited to:

- (a) Establishing and revising the method of accounting for the Agreement;
- (b) Maintaining a record of benefit payments;

-
- (c) Establishing rules and prescribing any forms necessary or desirable to administer the Agreement; and,
 - (d) Interpreting the provisions of the Agreement.

8.8 *Actions of the Company.* All determinations, interpretations, rules, and decisions of the Company shall be conclusive and binding upon all persons having or claiming to have any interest or right under this Agreement.

8.9 *Severability.* Without limitation of any other section contained herein, in case any one or more provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any other respect, such invalidity, illegality or unenforceability shall not affect the other provisions of this Agreement. In the event any one or more of the provisions found in the Agreement shall be held to be invalid, illegal or unenforceable by any governmental regulatory agency or court of competent jurisdiction, this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been a part of this Agreement and such provision shall be deemed substituted by such other provisions as will most nearly accomplish the intent of the parties to the extent permitted by applicable law.

8.10 *Entire Agreement.* This Agreement constitutes the entire agreement between the Company and the Executive as to the subject matter hereof. No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein.

8.11 *Named Fiduciary.* The Company shall be the named fiduciary and plan administrator under this Agreement. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of the plan including the employment of advisors and the delegation of ministerial duties to qualified individuals.

8.12 *Full Obligation.* Notwithstanding any provision to the contrary, when the Company has paid either the lifetime benefits or death benefits as appropriate under any section of the Agreement, the Company has completed its obligation to the Executive.

IN WITNESS WHEREOF, the Executive and a duly authorized Company officer have signed this Agreement as of the date indicated below.

THE CITIZENS BANK OF PHILADELPHIA, MISSISSIPPI

By: _____

Its: _____

EXECUTIVE:

**SCHEDULE A
BENEFICIARY DESIGNATION**

I, _____, designate the following as beneficiary of any death benefits payable under the Salary Continuation Agreement between myself and The Citizens Bank of Philadelphia, Mississippi:

Primary Beneficiary

Name _____ Relationship _____

Address _____

Contingent Beneficiary

Name _____ Relationship _____

Address _____

Note: To name a trust as beneficiary, please provide the name of the trustee and the exact date of the trust agreement.

I understand that I may change these beneficiary designations by filing a new written designation with the Company. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or, if I have named my spouse as beneficiary, in the event of the dissolution of our marriage.

Signature _____

Date _____

Accepted by the Company this ____ day of _____, 2004

By: _____

Title: _____

CITIZENS HOLDING COMPANY

AND SUBSIDIARY

Philadelphia, Mississippi

Consolidated Financial Statements

Years Ended December 31, 2004, 2003 and 2002

CONTENTS

Report of Independent Registered Public Accounting Firm (Financial Statements)	1
Report of Independent Registered Public Accounting Firm (Internal Control)	2–3
Management’s Assessment of Internal Control over Financial Reporting	4
Consolidated Financial Statements	
Consolidated Balance Sheets	5
Consolidated Statements of Income	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Changes in Stockholders’ Equity	8
Consolidated Statements of Cash Flows	9–10
Notes to Consolidated Financial Statements	11–40



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Citizens Holding Company
Philadelphia, Mississippi

We have audited the consolidated balance sheets of Citizens Holding Company and Subsidiary (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Holding Company and Subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Citizens Holding Company and Subsidiary's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated February 25, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of Citizens Holding Company and Subsidiary's internal control over financial reporting and an unqualified opinion on the effectiveness of Citizens Holding Company and Subsidiary's internal control over financial reporting.

Horne LLP

Jackson, Mississippi
February 25, 2005



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Citizens Holding Company
Philadelphia, Mississippi

We have audited management's assessment, included in the accompanying Management's Assessment of Internal Control over Financial Reporting, that Citizens Holding Company and Subsidiary (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (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 generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors for 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.

To the Board of Directors
Citizens Holding Company

Page Two

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

In our opinion, management's assessment that Citizens Holding Company and Subsidiary maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by COSO. Also in our opinion, Citizens Holding Company and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Citizens Holding Company and Subsidiary and our report dated February 25, 2005 expressed an unqualified opinion.



Jackson, Mississippi
February 25, 2005

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Citizens Holding Company (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Management assessed the Company's internal control over financial reporting as of December 31, 2004 based on the criteria for effective internal control over financial reporting established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2004, the Company maintained effective internal control over financial reporting.

The Company's internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

HORNE LLP, the Company's Independent Registered Public Accounting Firm, has audited management's assessment of the Company's internal control over financial reporting as of December 31, 2004, as stated in their report, appearing on pages 2 and 3, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

/s/ Greg L. McKee
Greg L. McKee
President and Chief Executive Officer

/s/ Robert T. Smith
Robert T. Smith
Treasurer and Chief Financial Officer

February 25, 2005

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and due from banks	\$ 16,837,433	\$ 15,101,810
Interest bearing deposits with other banks	818,716	98,036
Federal funds sold	11,000,000	—
Securities available for sale, at fair value (amortized cost of \$151,095,249 in 2004 and \$140,899,486 in 2003)	151,716,083	143,181,383
Loans, net of allowance for loan losses of \$4,720,875 in 2004 and \$5,126,735 in 2003	364,868,117	351,937,005
Bank premises, furniture, fixtures and equipment, net	9,772,213	9,998,973
Real estate acquired by foreclosure	2,786,716	695,018
Accrued interest receivable	4,385,892	4,206,104
Cash value of life insurance	15,504,829	14,880,618
Intangible assets, net of accumulated amortization of \$2,156,034 in 2004 and \$1,618,530 in 2003	5,827,579	6,390,480
Other assets	3,721,413	4,271,716
	<u> </u>	<u> </u>
Total assets	\$587,238,991	\$550,761,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing demand deposits	\$ 78,070,820	\$ 63,070,459
Interest bearing NOW and money market accounts	148,617,480	117,431,141
Interest bearing savings deposits	38,151,914	36,436,696
Interest bearing time deposits	209,623,530	221,759,002
	<u> </u>	<u> </u>
Total deposits	474,463,744	438,697,298
Federal Home Loan Bank advances	46,118,566	47,636,847
Accrued interest payable	620,590	668,538
Deferred compensation payable	2,157,041	1,832,211
Federal funds purchased	—	1,500,000
Other liabilities	2,221,390	2,540,822
	<u> </u>	<u> </u>
Total liabilities	525,581,331	492,875,716
Commitments and contingencies		
Minority interest	1,466,435	1,383,351
	<u> </u>	<u> </u>
Stockholders' equity		
Common stock, \$.20 par value, authorized 22,500,000 shares; 5,000,278 shares issued at 2004 and 4,979,628 at 2003	1,000,056	995,926
Additional paid-in capital	3,150,246	2,944,314
Accumulated other comprehensive income, net of taxes of \$211,084 in 2004 and \$764,050 in 2003	399,921	1,470,038
Retained earnings	55,641,002	51,091,798
	<u> </u>	<u> </u>
Total stockholders' equity	60,191,225	56,502,076
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$587,238,991	\$550,761,143

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Income
Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
Interest income			
Interest and fees on loans	\$24,159,391	\$23,693,234	\$22,628,364
Interest on securities			
Taxable	2,846,951	3,760,630	5,771,707
Non-taxable	2,882,402	2,237,257	1,598,983
Other	82,967	33,814	197,476
Total interest income	29,971,711	29,724,935	30,196,530
Interest expense			
Deposits	5,772,547	6,605,373	8,696,134
Other borrowed funds	1,764,422	1,583,075	1,050,209
Total interest expense	7,536,969	8,188,448	9,746,343
Net interest income	22,434,742	21,536,487	20,450,187
Provision for loan losses	(1,067,443)	(2,002,570)	(1,757,516)
Net interest income after provision for loan losses	21,367,299	19,533,917	18,692,671
Non-interest income			
Service charges on deposit accounts	3,391,188	3,235,400	3,026,976
Other service charges and fees	670,582	895,375	749,786
Net gains on investment securities sales	7,020	467,210	158,718
Other income	1,505,841	725,713	499,682
Total non-interest income	5,574,631	5,323,698	4,435,162
Non-interest expense			
Salaries and employee benefits	8,607,066	7,925,908	7,102,641
Occupancy expense	1,199,437	1,177,346	1,014,510
Equipment expense	1,738,348	1,567,289	1,297,232
Earnings applicable to minority interest	189,395	167,730	172,196
Other expense	4,978,710	4,203,714	4,278,599
Total non-interest expense	16,712,956	15,041,987	13,865,178
Income before income taxes	10,228,974	9,815,628	9,262,655
Income tax expense	2,682,889	2,844,699	2,965,155
Net income	\$ 7,546,085	\$ 6,970,929	\$ 6,297,500
Net income per share – basic	\$ 1.51	\$ 1.40	\$ 1.27
Net income per share – diluted	\$ 1.49	\$ 1.39	\$ 1.26
Average shares outstanding			
Basic	4,992,792	4,974,910	4,963,448
Diluted	5,056,637	5,019,759	4,999,168

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income	\$ 7,546,085	\$ 6,970,929	\$ 6,297,500
Other comprehensive income (loss)			
Unrealized holding gains (losses) during year	(1,661,064)	(1,808,269)	4,453,456
Income tax effect	562,385	624,185	(1,514,176)
Net unrealized gains (losses)	<u>(1,098,679)</u>	<u>(1,184,084)</u>	<u>2,939,280</u>
Reclassification adjustment for gains included in net income	(7,020)	(467,210)	(158,718)
Income tax effect	2,377	161,273	53,963
Net gains included in net income	<u>(4,643)</u>	<u>(305,937)</u>	<u>(104,755)</u>
Change in minority interest in net unrealized gains	33,205	28,385	(59,925)
Total other comprehensive income (loss)	<u>(1,070,117)</u>	<u>(1,461,636)</u>	<u>2,774,600</u>
Comprehensive income	<u>\$ 6,475,968</u>	<u>\$ 5,509,293</u>	<u>\$ 9,072,100</u>

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2004, 2003 and 2002

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2001	4,963,028	\$ 992,606	\$2,791,871	\$ 157,074	\$43,240,017	\$47,181,568
Net income	—	—	—	—	6,297,500	6,297,500
Dividends paid (\$0.52 per share)	—	—	—	—	(2,580,879)	(2,580,879)
Options exercised	11,550	2,310	107,460	—	—	109,770
Other comprehensive income (loss), net	—	—	—	2,774,600	—	2,774,600
Balance, December 31, 2002	4,974,578	994,916	2,899,331	2,931,674	46,956,638	53,782,559
Net income	—	—	—	—	6,970,929	6,970,929
Dividends paid (\$0.57 per share)	—	—	—	—	(2,835,769)	(2,835,769)
Options exercised	5,050	1,010	44,983	—	—	45,993
Other comprehensive income (loss), net	—	—	—	(1,461,636)	—	(1,461,636)
Balance, December 31, 2003	4,979,628	995,926	2,944,314	1,470,038	51,091,798	56,502,076
Net income	—	—	—	—	7,546,085	7,546,085
Dividends paid (\$0.60 per share)	—	—	—	—	(2,996,881)	(2,996,881)
Options exercised	20,650	4,130	205,932	—	—	210,062
Other comprehensive income (loss), net	—	—	—	(1,070,117)	—	(1,070,117)
Balance, December 31, 2004	5,000,278	\$1,000,056	\$3,150,246	\$ 399,921	\$55,641,002	\$60,191,225

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
Cash flows from operating activities			
Net income	\$ 7,546,085	\$ 6,970,929	\$ 6,297,500
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,056,647	1,020,645	851,977
Amortization of intangibles	537,503	537,503	460,548
Amortization of premiums and accretion of discounts on investment securities	1,387,598	(55,128)	(119,776)
Provision for loan losses	1,067,443	2,002,570	1,757,516
Realized investment securities gains	(7,020)	(467,210)	(158,718)
Deferred income tax expense (benefit)	11,432	(472,691)	99,596
Net earnings applicable to minority interest	189,395	167,730	172,196
Earnings from unconsolidated subsidiary	(188,911)	(78,389)	(109,884)
Write downs of real estate acquired by foreclosure	233,610	149,605	143,365
(Increase) decrease in accrued interest Receivable	(179,788)	(94,905)	505,876
Increase in cash value life insurance	(624,211)	(313,618)	(353,438)
Decrease in accrued interest payable	(47,948)	(287,182)	(582,954)
Increase in deferred compensation liability	324,830	649,805	103,215
Net change in other assets and liabilities	973,112	(161,766)	(95,002)
Net cash provided by operating activities	12,279,777	9,567,898	8,972,017
Cash flows from investing activities			
Proceeds from maturities of securities available-for-sale	38,276,877	62,778,307	75,936,011
Proceeds from sales of securities available-for-sale	22,515,102	58,103,673	38,131,901
Purchases of securities available-for-sale	(72,448,447)	(103,672,153)	(100,225,119)
Purchases of bank premises, furniture, fixtures and equipment	(829,887)	(1,619,676)	(3,458,384)
Proceeds from sale of real estate acquired by Foreclosure	1,381,344	733,274	5,991
Net (increase) decrease in interest bearing deposits with other banks	(720,680)	1,267,613	4,055,592
Net increase in loans	(17,705,207)	(50,278,536)	(30,882,658)
Net (increase) decrease in federal funds sold	(11,000,000)	2,300,000	5,900,000
Cash paid for acquisitions, net	25,398	(114,209)	(9,404,738)
Purchase of company owned life insurance	—	(11,404,152)	—
Net cash used by investing activities	(40,505,500)	(41,905,859)	(19,941,404)

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2004, 2003 and 2002

Page 2 of 2

	2004	2003	2002
Cash flows from financing activities			
Net increase in deposits	\$35,766,446	\$ 5,929,123	\$15,519,379
Net increase (decrease) in federal funds Purchased	(1,500,000)	1,500,000	—
Proceeds from exercise of stock options	210,062	45,993	109,770
Dividends paid to stockholders	(2,996,881)	(2,835,769)	(2,580,879)
Net increase (decrease) in Federal Home Loan Bank advances	(1,518,281)	23,030,712	4,977,347
Net cash provided by financing Activities	29,961,346	27,670,059	18,025,617
Net increase (decrease) in cash and due from banks	1,735,623	(4,667,902)	7,056,230
Cash and due from banks, beginning of year	15,101,810	19,769,712	12,713,482
Cash and due from banks, end of year	\$16,837,433	\$15,101,810	\$19,769,712
Supplemental disclosures of cash flow Information			
Cash paid for			
Interest	\$ 7,584,917	\$ 8,475,630	\$10,206,139
Income taxes	\$ 2,762,059	\$ 2,478,332	\$ 3,390,278
Non-cash disclosures			
Real estate acquired by foreclosure	\$ 3,706,652	\$ 291,488	\$ 1,095,108
Unrealized gain (loss) on investments	\$ 611,005	\$ 2,234,088	\$ 4,481,182

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2003, 2002 and 2001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accounting policies of Citizens Holding Company and Subsidiary conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The consolidated financial statements of Citizens Holding Company include the accounts of its 97.56 percent-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (collectively referred to as the "Company"). All significant intercompany transactions have been eliminated in consolidation.

Nature of Business

The Citizens Bank of Philadelphia, Mississippi (the "Bank") operates under a state bank charter and provides general banking services. As a state bank, the Bank is subject to regulations of the Mississippi Department of Banking and Consumer Finance and the Federal Deposit Insurance Corporation. Citizens Holding Company is subject to the regulations of the Federal Reserve. The area served by the Bank is Neshoba County, Mississippi and the immediately surrounding areas. Services are provided at several branch offices.

Estimates

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.

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 foreclosed real estate, future additions to the allowance 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 allowances for loan losses and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of 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 AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Cash and Due from Banks

For the purpose of reporting cash flows, cash and due from banks include 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. The total of those reserves for the years ended December 31, 2004 and 2003 was \$911,000 and \$587,000, respectively.

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

At December 31, 2004 and 2003, the Company had deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of the financial institutions and believes there is minimal risk.

Investment Securities

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," 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 available-for-sale are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. 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.

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

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 discounts and unearned finance charges. The Company has no loans held-for-sale.

Loan origination and commitment fees and direct loan origination costs attributable to loans held with a maturity of more than one year are not significant and are, therefore, recognized as income or expense, as applicable in the period received or incurred.

Unearned discounts on installment loans are recognized as income over the terms of the loans by a method that approximates the interest method. Unearned finance charges 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.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

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. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans and prior loss experience. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, review of specific problem loans, the Company's past loan loss experience, adverse situations that may affect the borrowers' ability to pay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention as well as loans considered impaired. For such loans that are also classified as impaired, a specific allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative and other factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

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 primarily by straight-line methods over the estimated useful lives of the assets. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Real Estate Acquired by Foreclosure

Real estate acquired by foreclosure consists of properties repossessed by the Company on foreclosed loans. These assets are stated at the lower of the outstanding loan amount (including accrued interest, if any) or 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. Revenue and expenses from operations of other real estate owned are reflected as other income (expense).

Cash Value of Life Insurance

The Company has purchased life insurance contracts on certain employees and directors. Certain of such policies were acquired pursuant to "split-dollar" arrangements with employees. During 2004 and 2003, several of these policies were converted to bank owned policies and the remainder was surrendered for cash. The cash surrender value of the remaining "split-dollar" policies as well as other Company owned policies is carried at the actual cash surrender value of the policy at the balance sheet date.

Intangible Assets

Intangible assets include core deposits purchased and goodwill. Core deposits intangibles are amortized on a straight-line basis over their estimated economic lives ranging from 5 to 10 years. Prior to 2002, goodwill was amortized over 40 years. Effective in 2002, pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are not amortized, but are tested at least annually for impairment. If impairment has occurred, the goodwill or other intangible asset is reduced to its estimated fair value through a charge to expense.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Investment – Insurance Company

The Company accounts for its investment in New South Life Insurance Company (“New South”), a 37 percent owned affiliate, by the equity method of accounting. The Company’s share of the net income of New South is recognized as income in the Company’s income statement and added to the investment account, and dividends received from New South would be treated as a reduction of the investment account. New South has not paid dividends.

The fiscal year of New South ends on November 30 and the Company follows the practice of recognizing the net income of New South on that basis.

The investment in New South, which is included in other assets, totaled \$1,766,979 and \$1,578,068 at December 31, 2004 and 2003, respectively. Income from the investment for the years ended December 31, 2004, 2003, and 2002 included in other income totaled \$188,911, \$78,389 and \$109,884, respectively.

Trust Assets

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

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. 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 described in SFAS No. 109, “Accounting for Income Taxes.” 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.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 1. Continued****Comprehensive Income**

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

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share 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. The effect of the dilutive shares for the years 2004, 2003 and 2002 is illustrated in the following table.

	2004	2003	2002
Basic weighted average shares outstanding	4,992,792	4,974,910	4,963,448
Dilutive effect of stock options	63,845	44,849	35,720
Dilutive weighted average shares outstanding	5,056,637	5,019,759	4,999,168
Net income	\$7,546,085	\$6,970,929	\$6,297,500
Net income per share-basic	\$ 1.51	\$ 1.40	\$ 1.27
Net income per share-diluted	\$ 1.49	\$ 1.39	\$ 1.26

Stock Based Compensation

Stock option grants are accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense is recognized for stock options granted if the option price is not less than the fair market value of the underlying stock at the grant date. For each of the years ended December 31, 2004, 2003 and 2002, no stock based compensation expense was included in the determination of net income as all options granted during the years had an exercise price equal to the market value of the stock on the date of grant.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Had compensation expense been determined on the basis of fair value pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," using publicly traded share prices as a basis of determining fair values, net income and earnings per share would have been reduced as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income			
As reported	\$7,546,085	\$6,970,929	\$6,297,500
Stock based employee compensation expense included in reported net income	—	—	—
Less stock based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(201,610)	(143,654)	(109,826)
Pro forma net income	\$7,344,475	\$6,827,275	\$6,187,674

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Basic earnings per share			
As reported		\$1.51	\$1.40
Pro forma		\$1.47	\$1.37
Diluted earnings per share			
As reported		\$1.49	\$1.39
Pro forma		\$1.45	\$1.36

The fair value of each option is estimated on the grant date using the Black-Scholes option pricing model. The following assumptions were made in estimating fair values in 2004, 2003 and 2002:

<u>Assumption</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Dividend yield	3.0%	1.5%	1.5%
Risk-free interest rate	4%	4%	4%
Expected life	7 years	7 years	7 years
Expected volatility	28.21%	20.40%	15.00%

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$440,538, \$379,319 and \$331,239 for the years ended December 31, 2004, 2003 and 2002, respectively.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of financial instruments' fair values, as well as the methodology and significant assumptions used in estimating fair values. These requirements have been incorporated in Note 15. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of those assets and liabilities.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share Based Payment". SFAS 123(R) is effective for public companies at the beginning of the first interim or annual period after June 15, 2005. This statement prohibits the use of the intrinsic value-based method under APB Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for share-based compensation. SFAS 123(R) requires the Company to calculate equity-based compensation expense for stock options and employee stock purchase plan rights granted to employees based on the fair value of the equity instrument at the time of grant. Currently, the Company discloses the pro forma net income (loss) and the related pro forma income (loss) per share information in accordance with SFAS 123 and SFAS 148, "Accounting for Stock-Based Compensation Costs-Transition and Disclosure."

Reclassifications

Certain information for 2003 and 2002 have been reclassified to conform to the financial presentation for 2004. Such reclassifications are not considered material and had no effect on net income or stockholders' equity.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 2. Acquisition and Intangible Assets**

In May 2002, the Company acquired CB&T Capital Corporation, a one-bank holding company, whose wholly-owned subsidiary was Citizens Bank & Trust Company in Louisville, Mississippi. The Company acquired CB&T Capital Corporation to gain entry into a geographic section of the State of Mississippi that is contiguous to the Company's current markets and in which the Company had very little market presence. The purchase price of the net assets totaled approximately \$12.3 million in cash and was based on a multiple of approximately 1.505 times the book value, subject to certain adjustments, of the acquired company. The Company based its purchase price on several factors, including comparable transactions and management's estimate of the value of entry into a strategically targeted geographic area.

The following is a summary of the assets acquired and liabilities assumed:

	<u>In Thousands</u>
Cash	\$ 2,880
Investments	50,620
Loans	15,019
Bank premises and other assets	3,137
Deposits	(57,939)
Other liabilities	(5,848)
	<hr/>
Net assets acquired	7,869
Goodwill and other intangible assets	4,415
	<hr/>
Purchase price	\$ 12,284

The Company allocated \$1,846,909 of the \$4,414,509 total intangible assets to core deposit intangibles and the remaining \$2,567,600 to goodwill. The core deposit intangible is amortized on a straight-line method over its estimated economic life of 10 years. The operations of CB&T Capital Corporation are included in the consolidated financial statements since the acquisition date. The pro forma effect, had the acquisition occurred on January 1, 2002, is not significant to the operations of the Company.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

In addition to the intangible assets related to the purchase of CB&T Capital Corporation, the Company incurred intangible assets from the purchase of branches located in Kosciusko, Scooba, Forest and Decatur, Mississippi along with the purchase of Three D Mortgage Company. The following table details the goodwill associated with each purchase which is no longer being amortized.

<u>Purchase</u>	<u>Total</u>	<u>Life to Date Amortization</u>	<u>Unamortized</u>
Kosciusko Branch	\$ 605,122	\$ 309,285	\$ 295,837
Scooba Branch	400,000	180,000	220,000
Three D Mortgage Company	76,408	10,188	66,220
CB&T Capital Corporation	2,567,600	—	2,567,600
Total goodwill	\$3,649,130	\$ 499,473	\$3,149,657

The Company has also allocated intangible assets to be recognized as core deposit intangibles on the acquisition of the Forest and Decatur branches and the CB&T Capital Corporation acquisition. These transactions are detailed in the following.

<u>Purchase</u>	<u>Total</u>	<u>Current Amortization Per Year</u>	<u>Life to Date Amortization</u>	<u>Unamortized</u>
Decatur and Forest branches	\$2,487,574	\$ 352,812	\$1,179,443	\$1,308,131
CB&T Capital Corporation	1,846,909	184,691	477,118	1,369,791
Total core deposit intangible	\$4,334,483	\$ 537,503	\$1,656,561	\$2,677,922

Total amortization expense related to all intangible assets for the years ended December 31, 2004, 2003 and 2002 was \$537,503, \$537,503 and \$460,548, respectively. Estimated amortization expense attributable to core deposit intangible assets for the next five years is detailed in the table below.

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$537,503
2006	537,503
2007	537,503
2008	434,386
2009	184,691

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities

The amortized cost and fair value of investment securities at December 31, 2004 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Obligations of U.S. Government agencies	\$ 17,981,545	\$ 120,640	\$ —	\$ 18,102,185
U.S. Treasuries	4,031,294	71,826	—	4,103,120
Mortgage-backed securities	49,420,029	299,317	315,176	49,404,170
Other investments	79,662,381	1,345,248	901,021	80,106,608
Total	\$151,095,249	\$1,837,031	\$1,216,197	\$151,716,083

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004.

Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U. S. Government Agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U. S. Treasuries	—	—	—	—	—	—
Mortgage-backed securities	36,000	315	—	—	36,000	315
Other Investments	33,680	850	661	51	34,341	901
Total	\$69,680	\$ 1,165	\$661	\$ 51	\$70,341	\$ 1,216

Mortgage-backed Securities. The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these investments are guaranteed either by the full faith and credit of the United States or by an agency of the United States Government and it is not expected that the securities would be settled at a price less than the amortized cost of the Company's investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality and because the Company

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2004.

Other investments. The Company's unrealized loss on other investments relates to state, county and municipal bonds that have seen a decline in value due to changes in interest rates. It is not expected that these securities would be settled at a price less than amortized cost of the Company's investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2004.

The amortized cost and fair value of investment securities at December 31, 2003 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Obligations of U.S. Government agencies	\$ 5,400,582	\$ 278,530	\$ —	\$ 5,679,112
U.S. Treasuries	15,130,106	397,434	—	15,527,540
Mortgage-backed securities	58,804,116	748,853	184,771	59,368,198
Other investments	61,564,682	1,675,912	634,061	62,606,533
Total	\$140,899,486	\$3,100,729	\$818,832	\$143,181,383

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2003.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U. S. Government Agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U. S. Treasuries	—	—	—	—	—	—
Mortgage-backed securities	20,370	185	—	—	20,370	185
Other Investments	15,557	633	1,068	1	16,625	634
Total	\$35,927	\$ 818	\$1,068	\$ 1	\$36,995	\$ 819

The Company, as a member of the Federal Home Loan Bank of Dallas (“FHLB”) system, owns stock in such organization. No ready market exists for the stock, and it has no quoted market value. The Company’s investment in the FHLB is carried at cost of \$3,227,300 and \$3,338,900 at December 31, 2004 and 2003, respectively, and is included in other investments.

The amortized cost and estimated fair value of securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Securities available-for-sale		
Due in one year or less	\$ 7,666,128	\$ 7,722,649
Due after one year through five years	10,349,356	10,584,681
Due after five years through ten years	31,584,898	32,120,324
Due after ten years	101,494,867	101,288,429
Total	\$151,095,249	\$151,716,083

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

Investment securities with carrying values of \$74,620,615 and \$86,599,561 at December 31, 2004 and 2003, respectively, were pledged as collateral for public deposits.

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

	2004	2003	2002
Gross realized gains	\$10,141	\$ 780,705	\$164,364
Gross realized losses	(3,121)	(313,495)	(5,646)
	<u>\$ 7,020</u>	<u>\$ 467,210</u>	<u>\$158,718</u>

Note 4. Loans

The composition of net loans at December 31, 2004 and 2003 is as follows:

	2004	2003
	(In Thousands)	
Commercial, financial and agricultural loans	\$201,424	\$186,950
Real estate – construction loans	10,706	15,409
Real estate – mortgage loans	92,503	92,412
Consumer loans	66,666	64,309
	<u>371,299</u>	<u>359,080</u>
Unearned discount	(1,710)	(2,016)
Allowance for loan losses	(4,721)	(5,127)
Loans, net	<u>\$364,868</u>	<u>\$351,937</u>

Loans are made principally to customers in the Company's trade area. The Company's lending policy provides that loans collateralized by real estate are normally made with loan-to-value ratios of 80 percent or less. Commercial loans are typically collateralized by property, equipment, inventories and/or receivables with loan-to-value ratios from 50 percent to 80 percent. Real estate mortgage loans are collateralized by personal residences with loan-to-value ratios of 80 percent or less. Consumer loans are typically collateralized by real estate, vehicles and other consumer durable goods. Approximately \$87,127,000 and \$67,608,000 of the loans outstanding at December 31, 2004 and 2003, respectively, were variable rate loans.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

Changes in the allowance for loan losses at December 31, 2003, 2002 and 2001 are as follows:

	2004	2003	2002
Balance, beginning	\$ 5,126,735	\$ 4,222,341	\$ 3,375,000
Provision for loan losses	1,067,443	2,002,570	1,757,516
Loans charged off	(1,799,687)	(1,399,947)	(2,036,933)
Recoveries of loans previously charged off	326,384	301,771	279,417
Other increases attributed to Bank Acquisition	—	—	847,341
Balance, end of year	\$ 4,720,875	\$ 5,126,735	\$ 4,222,341

Loans on nonaccrual (impaired) status were \$3,146,041, \$1,502,971 and \$357,640 at December 31, 2004, 2003 and 2002, respectively. Allowance for loan losses attributable to the entire balance of nonaccrual (impaired) loans totaled \$1,451,357 and \$225,446 at December 31, 2004 and 2003, respectively. Interest income forgone on loans classified as nonaccrual (impaired) during the years ended December 31, 2004, 2003 and 2002 was \$229,286, \$169,135 and \$69,888, respectively. No interest income is recognized on loans after being placed on nonaccrual status until all principal balances are collected.

Note 5. Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2004 and 2003:

	2004	2003
Land and buildings	\$10,545,802	\$10,413,679
Furniture, fixtures and equipment	8,626,549	7,956,845
	19,172,351	18,370,524
Less accumulated depreciation	9,400,138	8,371,551
Total	\$ 9,772,213	\$ 9,998,973

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was \$1,056,647, \$1,020,645 and \$851,977, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2004, 2003 and 2002
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Deposits

The composition of deposits is as follows:

	2004	2003
Non-interest bearing	\$ 78,070,820	\$ 63,070,459
NOW and money market accounts	148,617,480	117,431,141
Savings deposits	38,151,914	36,436,696
Time certificates, \$100,000 or more	82,016,625	88,184,262
Other time certificates	127,606,905	133,574,740
Total	\$474,463,744	\$ 438,697,298

The scheduled maturities of certificates of deposit at December 31, 2004 are as follows:

Year Ending December 31,	Amount
2005	\$ 162,038,111
2006	41,877,074
2007	5,473,189
2008	181,408
2009	53,748
	\$ 209,623,530

Interest expense for certificates of deposit over \$100,000 was approximately \$1,691,000, \$1,997,000 and \$2,346,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Federal Home Loan Bank Advances

Pursuant to collateral agreements with the Federal Home Loan Bank (FHLB), advances are collateralized by all the Company's stock, FHLB securities (\$3,227,300 included in securities available-for-sale at December 31, 2004) and qualifying first mortgage loans. As of December 31, 2004, the balance in qualifying first mortgage loans was \$89,987,724. At December 31, 2004, advances from the FHLB, along with their rate and maturity date, consist of the following:

Advance Amount at December 31,		Interest Rate	Final Maturity
2004	2003		
\$ —	14,000,000	1.11%	January 19, 2004
10,000,000	—	2.13	May 24, 2005
1,718,566	2,736,847	4.94	July 3, 2006
5,000,000	5,000,000	5.46	February 26, 2008
5,000,000	5,000,000	5.66	April 28, 2008
3,000,000	3,000,000	5.24	April 20, 2009
2,000,000	2,000,000	5.29	April 20, 2009
2,000,000	2,000,000	4.47	September 7, 2010
2,000,000	2,000,000	4.88	August 22, 2011
1,000,000	1,000,000	4.76	August 29, 2011
900,000	900,000	4.43	September 19, 2011
10,000,000	10,000,000	3.66	June 17, 2013
3,500,000	—	4.67	December 16, 2014
\$46,118,566	47,636,847		

The scheduled payments for the next five years are as follows:

Year Due	Payment
2005	\$11,069,748
2006	648,818
2007	—
2008	10,000,000
2009	5,000,000
Thereafter	19,400,000
	\$46,118,566

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2004, 2003 and 2002
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Income Taxes

The consolidated provision for income taxes consists of the following:

	2004	2003	2002
Currently payable			
Federal	\$2,297,257	\$2,939,498	\$2,556,030
State	374,200	377,892	309,529
	2,671,457	3,317,390	2,865,559
Deferred tax expense (benefit)	11,432	(472,691)	99,596
Income tax expense	<u>\$2,682,889</u>	<u>\$2,844,699</u>	<u>\$2,965,155</u>

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

	2004	2003	2002
Federal taxes based on statutory rate	\$3,477,851	\$3,337,314	\$3,149,303
State income taxes, net of federal benefit	246,972	249,409	204,289
Tax-exempt investment interest	(922,520)	(714,510)	(495,872)
Other, net	(119,414)	(27,514)	107,435
Income tax expense	<u>\$2,682,889</u>	<u>\$2,844,699</u>	<u>\$2,965,155</u>

At December 31, 2004 and 2003, net deferred tax assets consist of the following:

	2004	2003
Deferred tax assets		
Allowance for loan losses	\$1,427,477	\$1,477,660
Deferred compensation liability	804,577	683,415
Other	102,271	—
Total	<u>2,334,325</u>	<u>2,161,075</u>
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	211,084	764,050
Premises and equipment	650,656	528,276
Intangible assets	280,238	427,711
Other	339,984	130,209
Total	<u>1,478,242</u>	<u>1,850,246</u>
Net deferred tax asset	<u>\$ 852,363</u>	<u>\$ 310,829</u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 8. Continued**

The net deferred tax asset of \$852,363 and \$310,829 at December 31, 2004 and 2003, respectively, is included in other assets. 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.

Note 9. Summarized Financial Information of Citizens Holding Company

Summarized financial information of Citizens Holding Company, parent company only, at December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002, is as follows:

Balance Sheets
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash	\$ 1,110,270	\$ 906,547
Securities available-for-sale, at fair value	510,940	534,690
Investment in bank subsidiary	58,584,644	55,094,596
Other assets	25,091	10,417
	<u> </u>	<u> </u>
Total assets	\$60,230,945	\$56,546,250
	<u> </u>	<u> </u>
Liabilities		
Other liabilities	\$ 39,720	\$ 44,174
Stockholders' equity	60,191,225	56,502,076
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$60,230,945	\$56,546,250
	<u> </u>	<u> </u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Continued

Income Statements

Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
Interest income	\$ 38,994	\$ 38,706	\$ 42,465
Other income			
Other	—	14,426	35,843
Dividends from bank subsidiary	3,017,969	2,918,280	2,592,317
Equity in undistributed earnings of bank subsidiary	4,540,676	4,066,482	3,693,570
Total other income	7,558,645	6,999,188	6,321,730
Other expense	60,605	76,771	61,030
Income before income taxes	7,537,034	6,961,123	6,303,165
Income tax expense (benefit)	(9,051)	(9,806)	5,665
Net income	\$7,546,085	\$6,970,929	\$6,297,500

Statements of Cash Flows

Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
Cash flows from operating activities			
Net income	\$ 7,546,085	\$ 6,970,929	\$ 6,297,500
Adjustments to reconcile net income to net cash provided by operating Activities			
Equity in undistributed earnings of Bank	(4,540,676)	(4,066,482)	(3,693,570)
(Increase) decrease in other assets	(9,051)	—	1,480
Increase (decrease) in other liabilities	(10,075)	851	24,983
Net cash provided by operating Activities	2,986,283	2,905,298	2,630,393
Cash flows from investing activities			
Other	4,259	(115,378)	(9,040)
Net cash provided by (used by) Investing activities	4,259	(115,378)	(9,040)

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 9. Continued**

	2004	2003	2002
Cash flows from financing activities			
Dividends paid to stockholders	\$(2,996,881)	\$(2,835,769)	\$(2,580,879)
Exercise of stock options	210,062	45,993	109,770
Net cash used by financing Activities	(2,786,819)	(2,789,776)	(2,471,109)
Net increase in cash	203,723	144	150,244
Cash, beginning of year	906,547	906,403	756,159
Cash, end of year	\$ 1,110,270	\$ 906,547	\$ 906,403

The Bank is required to obtain approval from state regulators before paying dividends. The Bank paid dividends of \$3,017,969, \$2,918,280 and \$2,592,317 to the Citizens Holding Company during the years ended December 31, 2004, 2003 and 2002, respectively.

Note 10. Related Party Transactions

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, significant stockholders, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (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 collectibility at the time of the transaction.

The balance of loans made to related parties at December 31, 2004 and 2003 was \$1,133,660 and \$2,758,253, respectively. Advances to related parties during the year ended December 31, 2004 totaled \$4,325,624. Payments received from related parties during the year ended December 31, 2004 totaled \$5,949,444 and \$773 of loans at December 31, 2003 relate to a director that retired during 2004.

Deposits from related parties at December 31, 2004 and 2003 approximated \$3,025,996 and \$3,326,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentrations of Risks

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, 2004 and 2003, commitments related to unused lines of credit were \$19,832,752 and \$20,445,500 and standby letters of credit were \$4,250,996 and \$1,199,800, respectively. The fair value of such commitments is not material. 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.

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

The Company is party to lawsuits and other claims that arise in the ordinary course of business. The lawsuits assert claims related to the general business activities of the Company. The cases are being vigorously contested. In the regular course of business, management evaluates

estimated losses or costs related to litigation, and provision is made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. While management believes that the final resolution of pending legal proceedings will not have a material impact on the Company's financial position or results of operations, the final resolution of such proceedings could have such a material adverse effect.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Continued

Concentration of Risk

The Company makes agricultural, agribusiness, commercial, residential and consumer loans primarily in the eastern region of Mississippi. A substantial portion of the Company's customers' abilities to honor their contracts is dependent on the business and agricultural economy in that area.

Although the Company's loan portfolio is diversified, there is a relationship in this region 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. Collateral for agricultural loans includes equipment, crops, livestock, and land. 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 4 for a summary of loans by type.

The nature of the Company's business requires that it maintain amounts due from banks, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Note 12. Lease Commitment and Total Rental Expense

The Company has operating leases under noncancellable operating lease agreements for banking facilities and equipment. Future minimum rental payments due under the leases are as follows:

<u>Years Ending December 31,</u>	<u>Amounts</u>
2005	\$ 78,440
2006	68,355
2007	20,392
2008	944
2009	—
	<u>\$168,131</u>

The total rental expense included in the income statements for the years ended December 31, 2004, 2003 and 2002 is \$58,847, and \$59,330 and \$64,281, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Benefit Plans

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 100 percent matching contribution for up to 6 percent of each participant's compensation, plus discretionary non-matching contributions. Employees are eligible after one year of service. For 2004, 2003 and 2002, the Company's contributions were \$448,334, \$407,577 and \$358,520, respectively.

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 retirement. Life insurance contracts have been purchased which may be used to fund payments under the plan. Net expenses related to this plan were \$131,120, \$137,364 and \$103,570 for the plan years ended December 31, 2004, 2003 and 2002, 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 which may be used to fund payments under these arrangements. The obligations of the Company under both the directors and officers deferred compensation arrangements are on a systematic basis over the remaining expected service period of the individual directors and officers.

During 2004 and 2003, the Company surrendered certain life insurance policies that were acquired pursuant to "split-dollar" arrangements with employees and settled the Company's obligations to such employees under such arrangements. The impact of such transactions on the Company's financial statements was not significant.

Also during 2003, one of the Company's directors died and the Company received life insurance proceeds of approximately \$600,000 in excess of the carrying amount of the related policy. In addition, as a result of the untimely death, the Company's liability for amounts due under the deferred compensation agreement increased by approximately the same amount. Accordingly, the Company did not realize a significant gain or loss. The Company did, however, realize an income tax benefit as the proceeds received from the life insurance policy was not subject to income taxes.

Note 14. Regulatory Matters

The Company is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation ("FDIC"). 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 affect on the

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Continued

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).

As of December 31, 2004 and 2003, 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		For Capital Adequacy Purposes		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004						
Total Capital (to Risk-Weighted Assets)						
Citizens Holding Company	\$60,327,088	15.39%	\$31,354,423	8%	\$	N/A —
Citizens Bank	58,716,354	14.99	31,344,415	8	39,180,519	10%
Tier I Capital (to Risk-Weighted Assets)						
Citizens Holding Company	55,430,160	14.14	15,677,212	4		N/A —
Citizens Bank	53,820,971	13.74	15,672,207	4	23,508,311	6
Tier I Capital (to Average Assets)						
Citizens Holding Company	55,430,160	9.72	22,813,669	4		N/A —
Citizens Bank	53,820,971	9.46	22,745,381	4	28,431,727	5

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Continued

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003						
Total Capital (to Risk-Weighted Assets)						
Citizens Holding Company	\$54,602,000	14.94%	\$29,247,000	8%	\$ N/A	—
Citizens Bank	53,180,000	14.55	29,238,080	8	36,547,600	10%
Tier I Capital (to Risk-Weighted Assets)						
Citizens Holding Company	50,025,000	13.68	14,624,000	4	N/A	—
Citizens Bank	48,605,000	13.30	14,619,040	4	21,928,560	6
Tier I Capital (to Average Assets)						
Citizens Holding Company	50,025,000	9.11	21,973,000	4	N/A	—
Citizens Bank	48,605,000	8.86	21,943,160	4	27,428,950	5

Note 15. Fair Values of Financial Instruments

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2004 and 2003:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	\$ 16,837,433	\$ 16,837,433	\$ 15,101,810	\$ 15,101,810
Interest bearing deposits with banks	818,716	818,716	98,036	98,036
Federal funds sold	11,000,000	11,000,000	—	—
Securities available-for-sale	151,716,083	151,716,083	143,181,383	143,181,383
Net loans	364,868,117	363,276,796	351,937,005	352,350,667
Accrued interest receivable	4,385,892	4,385,892	4,206,104	4,206,104
Financial liabilities				
Deposits	\$474,463,744	\$474,627,262	\$438,697,298	\$ 438,767,465
Federal Home Loan Bank Advances	46,118,566	46,711,095	47,636,847	47,456,140
Accrued interest payable	620,590	620,590	668,538	668,538
Federal funds purchased	—	—	1,500,000	1,500,000

The fair value estimates, methods and assumptions used by the Company in estimating its fair value disclosures for financial instruments were:

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Continued

Cash and Due from Banks and Interest Bearing Deposits with Banks

The carrying amounts reported in the balance sheet for these instruments approximate those assets' fair values because of their immediate and shorter-term maturities.

Securities Available-for-Sale

Fair values for investment 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.

Net Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (i.e., commercial real estate and rental property mortgage loans, commercial and industrial loans, financial institution loans, and agricultural loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

Federal Funds Sold and Purchased

Due to the short term nature of these instruments, the carrying amount is equal to the fair value.

Deposits

The fair values for demand deposits, NOW and money market accounts and savings accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate, fixed-term money market accounts and time deposits approximate their fair values at the reporting date. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates its fair value.

Federal Home Loan Bank Borrowings

The fair value of the portion of Federal Home Loan Bank advances that matures within 90 days approximates its fair value. For longer term maturities, the fair value is based on discounted cash flow analysis.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit and letters of credit are estimated using fees currently charged to enter into similar agreements. The fees associated with these financial instruments are not material.

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stock Options

The Company has a directors' stock compensation plan and employees' long-term incentive plan. Under the directors' plan, the Company may grant options 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 6 months and expire after 10 years. Under the employees' incentive plan the Company may grant options up to 7 percent of the total number of shares of common stock, which may be issued and outstanding. Incentive options must be granted within 10 years of the adoption of the plan and expire no later than 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.

Following is a summary of the status of the plans for the years ending December 31, 2004, 2003 and 2002:

	Directors' Plan		Employees' Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2002	55,800	\$ 9.12	27,450	\$ 9.85
Granted	15,000	15.00	38,000	14.68
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at December 31, 2002	70,800	\$ 10.37	53,900	\$ 13.33
Granted	16,500	16.40	41,500	14.57
Exercised	(3,300)	7.15	(1,750)	12.80
Forfeited	—	—	—	—
Outstanding at December 31, 2003	84,000	\$ 11.68	93,650	\$ 13.89
Granted	13,500	22.25	43,500	21.85
Exercised	(19,650)	9.94	(1,000)	14.65
Forfeited	—	—	—	—
Outstanding at December 31, 2004	77,850	\$ 13.95	136,150	\$ 16.43
Options exercisable at:				
December 31, 2004	77,850	\$ 13.95	136,150	\$ 16.43
Weighted average fair value of Options granted during years ended				
December 31, 2002		\$ 3.85		\$ 3.76
December 31, 2003		\$ 4.21		\$ 3.74
December 31, 2004		\$ 5.69		\$ 5.59

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 16. 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>
\$0 to \$10.00	14,850	\$ 7.27	4 years, 2 months
\$10.01 to \$15.00	125,650	13.48	7 years, 1 month
\$15.01 to \$20.00	16,500	16.40	8 years, 4 months
\$20.01 and above	57,000	21.94	9 years, three months
Total	214,000	\$ 15.53	7 years, 7 months

OVERVIEW

Over the past three years, the Bank has experienced growth in asset size and earnings as management has capitalized on opportunities for strategic acquisitions and on natural economic growth within our market area. Growth in 2004 and 2003 is attributable to steady loan demand fueled by continued low interest rates. In 2002, the Company acquired CB&T Capital Corporation and its subsidiary, Citizens Bank and Trust Company ("CB&T") in Louisville, Mississippi, which added \$71.7 million in assets. Earnings have increased steadily over the three-year period as management utilized low costs of funds to increase net interest income. At the same time, management believes it has made appropriate provisions for potential loan losses.

Total assets for 2004 increased 6.6% from 2003 to \$587,238,991, and net loans increased 3.7% from 2003 to \$364,868,117. The loan growth in 2004 was funded in part by an increase in demand deposit accounts. Deposit growth for 2004 was 8.2% to \$474,463,744 even though certificates of deposits declined by \$12,135,472 or 5.5%. The Company's growth in 2004 resulted from normal expansion within its markets. The Company did not make any acquisitions in 2004.

In 2003, the Company experienced normal growth in assets without any acquisitions. The continued growth of the Company's market area fueled the Company's growth. Total assets for the year increased 6.2% from 2002 to \$550,761,143, and net loans increased 15.8% from 2002 to \$351,937,005. Much of the loan growth in 2003 was funded by low interest rate borrowings from the Federal Home Loan Bank. Deposit growth for the year was 1.4% to \$438,697,298.

In 2002, the Company had significant growth in assets, loans and deposits, in large part due to the acquisition of CB&T. The net purchase price of this acquisition was \$4,300,300. Assets increased \$91,237,244, or 21.4%, over 2001, net loans increased \$43,049,436, or 16.5%, over 2001, and deposits increased \$73,459,168, or 20.4%, over 2001, with \$71.7 million of the increase in assets, including \$15.0 million in net loans, and \$57.9 million of the increase in deposits attributable to the CB&T purchase.

The Company's 2004 net income after taxes increased 8.25% over 2003 to \$7,546,085. Although interest rates rose in 2004, the Company was able to take advantage of low interest rates on its sources of investible funds to increase net income. Net income for 2004 produced, on a fully diluted basis, earnings per share of \$1.49, compared to \$1.39 in 2003 and \$1.26 for 2002.

Net income after taxes of the Company for 2003 increased 10.7% over 2002 to \$6,970,929. Net income after taxes of the Company for 2002 increased by 10.3% over 2001 to \$6,297,500. Net income was positively affected in both 2003 and 2002 by a decrease in interest rates paid on deposits and other borrowed money.

The Company's Return on Average Assets (ROA) was 1.33% in 2004, compared to 1.27% in 2003 and 1.28% in 2002. Its Return on Average Equity (ROE) was 12.84% in 2004, 12.42% in

2003 and 12.28% in 2002. During these periods, leverage capital ratios (the ratio of equity to average total assets) increased from 8.83% in 2002 to 9.11% in 2003 and to 9.72% in 2004. The increase in ROE indicates that the Company has been successful in using its capital to support growth in both assets and earnings. This growth has enabled the Company to increase the annual dividend payout rate to approximately 40% of 2004 earnings per share. Even though the dividend payout ratio has increased, the leverage capital ratio increased to 9.72% in 2004, which is well above the regulatory requirement of 5% to be considered "well capitalized" under applicable Federal Deposit Insurance Corporation (the "FDIC") guidelines for the Bank.

CRITICAL ACCOUNTING POLICIES

The allowance for loan losses is established through a provision for loan losses charged against net income. The allowance represents an amount, which 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 collectibility 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 is also a factor in the FDIC's determination of the Bank's capital adequacy. The estimation of potential losses in the Bank's loan portfolio is susceptible to changes resulting from changes in the financial condition of individual borrowers, economic conditions in the Bank's market area and general economic conditions in the area.

RECENT PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share Based Payment". SFAS 123(R) is effective for public companies at the beginning of the first interim or annual period after June 15, 2005. This statement prohibits the use of the intrinsic value-based method described under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for share-based compensation. SFAS 123(R) requires the Company to calculate equity-based compensation expense for stock options and employee stock purchase plan rights granted to employees based on the fair value of the equity instrument at the time of grant. Currently, the Company discloses the pro forma net income (loss) and the related pro forma income (loss) per share information in accordance with SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation Costs-Transition and Disclosure." The adoption of SFAS 123(R) is not expected to have a material impact on the Company's financial statements.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains statements which constitute forward-looking statements and information which are based on management's beliefs, plans, expectations, and 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. The Company notes that a variety of factors could cause the 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 Company’s and the Bank’s business include, but are not limited to, the following:

- the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Company operates;
- changes in the legislative and regulatory environment that negatively impact the Company and Bank through increased operating expenses;
- increased competition from other financial institutions;
- the impact of technological advances;
- expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions;
- changes in asset quality and loan demand;
- expectations about overall economic strength and the performance of the economy in the Company’s market area; and
- other risks detailed from time to time in the Company’s filings with the Securities and Exchange Commission.

The Company does not undertake any obligation to update or revise any forward-looking statements subsequent to the date on which they are made.

SELECTED FINANCIAL DATA

The following selected financial data has been taken from the Company’s Consolidated Financial Statements and related notes included in this Annual Report and should be read in conjunction with such consolidated financial statements and related notes. Dollar references in all of the following tables are in thousands except for per share data. All per share data has been adjusted to give effect to the three-for-two stock split effective January 2, 2002.

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

TABLE 1 - FIVE YEAR SUMMARY OF CONSOLIDATED STATEMENTS AND RELATED STATISTICS

	2004	2003	2002	2001	2000
Summary of Earnings					
Total Interest Income	\$ 29,972	\$ 29,725	\$ 30,197	\$ 29,119	\$ 28,638
Total Interest Expense	7,537	8,188	9,746	13,399	14,064
Provision for loan losses	1,067	2,003	1,758	1,123	918
Non-interest income	5,574	5,324	4,435	3,980	3,285
Non-interest expense	16,713	15,042	13,865	10,308	8,772
Income tax expense	2,683	2,845	2,965	2,558	2,635
Net Income	7,546	6,971	6,298	5,711	5,534
Per Share Data					
Earnings-basic	\$ 1.51	\$ 1.40	\$ 1.27	\$ 1.15	\$ 1.12
Earnings-diluted	1.49	1.39	1.26	1.15	1.11
Cash dividends	0.600	0.570	0.520	0.383	0.283
Book value at year end	12.04	11.35	10.81	9.51	8.74
Selected Year End Actual Balances					
Loans, net of unearned income	\$369,589	\$357,064	\$308,175	\$264,278	\$252,022
Allowance for possible loan losses	4,721	5,127	4,222	3,375	3,325
Investment securities	151,716	143,181	162,276	122,567	103,533
Total assets	587,239	550,761	518,450	427,213	382,800
Deposits	474,464	438,697	432,768	359,309	289,908
Long term borrowings	46,119	47,637	24,606	14,629	10,000
Shareholders' equity	60,191	56,502	53,783	47,182	43,377
Selected Year End Average Balances					
Loans, net of unearned income	\$364,922	\$337,763	\$289,407	\$255,185	\$244,307
Allowance for possible loan losses	5,532	4,495	3,905	3,335	3,198
Investment securities	142,994	164,371	153,726	106,632	102,325
Total assets	565,892	549,520	491,833	403,881	374,439
Deposits	457,510	447,188	414,135	327,536	290,704
Long term borrowings	41,607	35,314	19,301	14,815	10,000
Shareholders' equity	58,750	56,121	51,304	47,664	40,701
Selected Ratios					
Return on average assets	1.33%	1.27%	1.28%	1.41%	1.48%
Return on average equity	12.84%	12.42%	12.28%	11.98%	13.60%
Dividend payout ratio	39.71%	40.71%	40.98%	33.31%	25.41%
Equity to year end assets	10.25%	10.26%	10.37%	11.04%	11.33%
Total risk-based capital to risk-adjusted assets	15.39%	14.94%	15.57%	18.40%	18.88%
Leverage capital ratio	9.72%	9.11%	8.83%	10.51%	11.61%
Efficiency ratio	57.65%	54.45%	54.51%	51.32%	47.20%

The year-end and average balances for 2002 reflect the increase in loans, assets and deposits that resulted from the May 2002 acquisition of CB&T and its bank subsidiary, Citizens Bank and Trust Company of Louisville. Similarly, the balances in 2001 increased in part by the acquisition of two Union Planters branches located in Forest and Decatur, Mississippi in July 2001.

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.

Net interest income on a tax equivalent basis was \$23,435,000, \$22,317,000 and \$21,014,000 for the years 2004, 2003 and 2002, respectively. Net interest margin was 4.61%, 4.49% and 4.67% for the same periods. The increase in net interest income in 2004 was due to the increases in the volume and yield of interest-bearing assets exceeding the increases in the volume of and rates paid on deposits. For the year ended December 31, 2004, the average yield on earning assets decreased 4 basis points to 6.09% from 2003 and the average rate paid on interest-bearing liabilities decreased 18 basis points to 1.76% from 2003. The volume of earning assets increased 2.1% while the volume of interest-bearing liabilities increased 1.7% in 2004.

In 2003, the increase in the volume of interest-bearing assets, partially offset by the slightly larger decrease in the interest rate charged on loans than the decrease in the interest rate paid on deposits, caused the rise in net interest income in 2003. The average yield on earning assets in 2003 decreased to 6.13% from 6.83% in 2002, while the average rate on interest-bearing liabilities decreased to 1.94% from 2.59% in 2002. Earning assets volume increased 10.6% while interest-bearing liabilities volume increased 12.0% in 2003.

During this three-year period, loan demand has remained strong and has allowed the Company to continue to invest its available funds in loans. Loans generally provide the Company with yields that are greater than the yields on typical investment securities. The volume increases in both interest bearing assets and liabilities was aided by the acquisition of CB&T in May 2002.

Also, during 2003, the Company purchased \$11.4 million of additional bank-owned life insurance, which, coupled with increases due to income on these policies, increased the Bank's total investment in such insurance to approximately \$15.5 million at December 31, 2004. The additional purchases were made to provide a future funding source for certain of the Company's deferred compensation arrangements. Such insurance also offers more attractive yield than other investment securities.

Table 2 – Average Balance Sheets and Interest Rates sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the fiscal years ended December 31, 2004, 2003 and 2002.

TABLE 2 - AVERAGE BALANCE SHEETS AND INTEREST RATES

	Average Balance			Income/Expense			Average Yield/Rate		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Loans:									
Commercial Loans	\$345,375	\$313,599	\$265,178	\$22,405	\$21,347	\$20,130	6.48%	6.81%	7.59%
Installment Loans (Net)	18,030	22,676	22,747	1,757	2,350	2,506	9.74%	10.36%	11.02%
Total Loans	363,405	336,275	287,925	24,162	23,697	22,636	6.65%	7.05%	7.86%
Investment Securities									
Taxable	72,023	108,695	115,510	2,847	3,761	5,772	3.95%	3.39%	5.00%
Tax-exempt	66,542	49,183	34,166	3,863	2,998	2,143	5.80%	6.10%	6.27%
Total Investment Securities	138,565	157,878	149,676	6,710	6,759	7,915	4.84%	4.28%	5.29%
Federal Funds Sold and Other	6,031	3,575	12,428	83	34	198	1.38%	0.95%	1.59%
Total Interest Earning Assets	508,001	497,728	450,029	30,955	30,490	30,749	6.09%	6.13%	6.83%
Non-Earning Assets	57,891	51,792	41,804						
Total Assets	\$565,892	\$549,520	\$491,833						
Deposits:									
Interest-bearing Demand Deposits	\$127,902	\$123,338	\$117,989	\$ 1,372	\$ 1,212	\$ 1,499	1.07%	0.98%	1.27%
Savings	37,591	34,696	27,653	319	354	483	0.85%	1.02%	1.75%
Time	219,150	222,695	209,610	4,065	5,024	6,702	1.85%	2.26%	3.20%
Total Deposits	384,643	380,729	355,252	5,756	6,590	8,684	1.50%	1.73%	2.44%
Borrowed Funds									
Short-term Borrowings	1,113	4,065	659	18	56	12	1.62%	1.37%	1.82%
Long-term Borrowings	41,607	35,314	19,301	1,746	1,527	1,039	4.20%	4.32%	5.38%
Total Borrowed Funds	42,720	39,379	19,960	1,764	1,583	1,051	3.70%	4.02%	5.27%
Total Interest-Bearing Liabilities	427,363	420,108	375,212	7,520	8,173	9,735	1.76%	1.94%	2.59%
Non-Interest Bearing Liabilities									
Demand Deposits	72,867	65,985	58,883						
Other Liabilities	6,912	7,306	6,434						
Shareholders' Equity	58,750	56,121	51,304						
Total Liabilities and Shareholders' Equity	\$565,892	\$549,520	\$491,833						
Interest Rate Spread							4.33%	4.19%	4.24%
Net Interest Income				\$23,435	\$22,317	\$21,014			
Net Interest Margin							4.61%	4.49%	4.67%

Table 3 - Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2004, 2003, and 2002.

TABLE 3 - NET AVERAGE INTEREST EARNING ASSETS

	2004	2003	2002
Average interest earning assets	\$508,001	\$497,728	\$450,029
Average interest bearing liabilities	427,363	420,108	375,212
Net average interest earning assets	<u>\$ 80,638</u>	<u>\$ 77,620</u>	<u>\$ 74,817</u>

Table 4 – Volume/Rate Analysis depicts the dollar effect on interest income and interest expense of changes in volume and changes in rate from 2002 through 2004. 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 marginal federal income tax rate of 34%.

TABLE 4 - VOLUME/RATE ANALYSIS

	2004 Change from 2003			2003 Change from 2002		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$ 1,804	\$(1,339)	\$ 465	\$3,407	\$(2,346)	\$ 1,061
Taxable Securities	(1,449)	536	(913)	(236)	(1,775)	(2,011)
Non-Taxable Securities	1,007	(143)	864	916	(61)	855
Federal Funds Sold and Other	34	15	49	(84)	(80)	(164)
TOTAL INTEREST INCOME	<u>\$ 626</u>	<u>\$ (161)</u>	<u>\$ 465</u>	<u>\$4,003</u>	<u>\$(4,262)</u>	<u>\$ (259)</u>
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 49	\$ 111	\$ 160	\$ 52	\$ (339)	\$ (287)
Savings Deposits	25	(60)	(35)	71	(200)	(129)
Time Deposits	(66)	(893)	(959)	295	(1,973)	(1,678)
Short-term borrowings	(48)	10	(38)	47	(3)	44
Long-term borrowings	264	(45)	219	692	(204)	488
TOTAL INTEREST EXPENSE	<u>\$ 224</u>	<u>\$ (877)</u>	<u>\$ (653)</u>	<u>\$1,157</u>	<u>\$(2,719)</u>	<u>\$(1,562)</u>
NET INTEREST INCOME	<u>\$ 402</u>	<u>\$ 716</u>	<u>\$1,118</u>	<u>\$2,846</u>	<u>\$(1,543)</u>	<u>\$ 1,303</u>

LOANS

The loan portfolio constitutes the major earning asset of the Company and, in the opinion of management, offers the best alternative for maximizing interest spread above the cost of funds. The Company's loan personnel has 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 loan committee for approval. The loan committee is composed of various directors, including the Chairman. All aggregate credits which 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 on sound and thorough credit analysis;
- to properly document all loans;
- to eliminate loans from the portfolio that are under-priced, 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 has remained strong in the Company's market area over the past three years. In general, the loan growth experienced in 2004, 2003 and 2002 was due to a continuation of the overall growth in the market area served by the Company. The acquisition of CB&T in 2002 added approximately \$15.0 million in loans. The impact on housing caused by the opening of a casino on the nearby Choctaw Indian Reservation is beginning to show less of an impact on the housing market in the area. Real estate mortgage loans originated by the Company grew by \$500,699, or .5%, in 2004, \$2,959,217, or 3.3%, in 2003 and \$8,904,468, or 11.1%, in 2002.

Commercial and agricultural loans also showed large growth during this period. These loans grew \$14,317,978, or 7.7%, in 2004, \$37,188,745, or 24.8%, in 2003 and \$23,630,697, or 18.7%, in 2002. This increase was caused by the influence of the casino in the area and by an increase in the number of loans to poultry producers originated during these years. Commercial 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 surrounding this loan category are adequate to manage any risk represented by the growth of the loans in this category.

Consumer loans have shown moderate growth during the period. This category increased \$1,919,155, or 3.2%, in 2004, \$4,649,580, or 7.8%, in 2003 and \$5,441,264, or 10.0%, in 2002. The Company believes that changes in consumer purchasing habits and the increase in loan sources have affected the growth of this segment of loans. Sustained low unemployment may also have lessened the dependence on consumer loans for some purchases.

Table 5 - Loans Outstanding reflects outstanding balances by loan type for the past five years. Additional loan information is presented in Note 4 to the consolidated financial statements.

TABLE 5 - LOANS OUTSTANDING

AT DECEMBER 31,

	2004	2003	2002	2001	2000
Commercial, financial and agricultural	\$201,424	\$186,950	\$149,762	\$126,131	\$122,412
Real estate – construction	10,706	15,409	11,708	6,036	5,310
Real estate – mortgage	92,503	92,412	89,452	80,548	74,824
Consumer	66,666	64,309	59,660	54,218	52,394
TOTAL LOANS	\$371,299	\$359,080	\$310,582	\$266,933	\$254,940

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

TABLE 6 - LOAN LIQUIDITY

LOAN MATURITIES AT DECEMBER 31, 2004

	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	Total
Commercial, financial and agricultural	\$ 99,232	\$ 93,173	\$ 9,019	\$201,424
Real estate - construction	9,869	767	70	\$ 10,706
Real estate - mortgage	12,520	56,090	23,893	\$ 92,503
Consumer	27,366	35,667	3,633	\$ 66,666
Total loans	\$148,987	\$185,697	\$36,615	\$371,299

SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$170,622	\$35,766
Variable rates	15,075	849
Total loans	\$185,697	\$36,615

Each loan either has a stated maturity as to when the loan is to be repaid or is subject to an agreement between the Bank 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. All loans must have principal reductions starting prior to the second renewal date.

PROVISION FOR LOAN LOSSES AND ASSET QUALITY

The provision for loan losses represents a charge against operations to establish reserves for probable loan losses inherent in the Company's loan portfolio. 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 2002, 2003 and 2004. The ratio of net loans charged off to average loans was .40% in 2004, .33% in 2003 and .61% in 2002. These percentages are representative of normal loan charge-offs and are not the result of an economic downturn in any particular segment of the Company's market. 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 was \$1,067,443 in 2004, \$2,002,570 in 2003 and \$1,757,516 in 2002. At the end of 2004, the total allowance for loan losses was \$4,720,875, an amount that management believes to be sufficient to protect against future loan losses.

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

TABLE 7 - ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

	2004	2003	2002	2001	2000
BALANCE AT BEGINNING OF YEAR	\$ 5,127	\$ 4,222	\$ 3,375	\$ 3,325	\$ 3,100
LOANS CHARGED-OFF					
Commercial, financial and agricultural	1394	700	935	612	186
Real estate - construction	—	—	23	—	—
Real estate - mortgage	15	145	122	36	26
Consumer	390	555	957	675	801
TOTAL CHARGE-OFFS	1,799	1,400	2,037	1,323	1,013
CHARGE-OFFS RECOVERED					
Commercial, financial and agricultural	144	65	54	22	121
Real estate - construction	—	—	—	—	—
Real estate - mortgage	11	2	4	26	24
Consumer	171	235	221	202	175
TOTAL RECOVERIES	326	302	279	250	320
Net loans charged-off	1,473	1,098	1,758	1,073	693
Additions charged to operating expense	1,067	2,003	1,758	1,123	918
Other increases attributed to acquisition	—	—	847	—	—
BALANCE AT END OF YEAR	\$ 4,721	\$ 5,127	\$ 4,222	\$ 3,375	\$ 3,325
Net loans at year end	\$369,589	\$357,064	\$308,175	\$264,278	\$252,022
Ratio of allowance to loans at year end	1.28%	1.44%	1.37%	1.28%	1.32%
Average loans - net of unearned income	\$364,922	\$337,763	\$289,407	\$255,185	\$244,307
Ratio of net loans charged-off to average loans	0.40%	0.33%	0.61%	0.42%	0.28%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

AT DECEMBER 31,

	2004	2003	2002	2001	2000
Commercial, financial and agricultural	\$1,872	\$2,300	\$1,700	\$1,200	\$1,000
Real estate - construction	300	300	200	250	250
Real estate - mortgage	900	900	800	700	650
Consumer	1,550	1,550	1,475	1,175	1,075
Unallocated	99	77	47	50	350
Total	\$4,721	\$5,127	\$4,222	\$3,375	\$3,325

COMPOSITION OF LOAN PORTFOLIO BY TYPE

AT DECEMBER 31,

	2004	2003	2002	2001	2000
Commercial, financial and agricultural	54.25%	52.06%	48.22%	47.25%	48.02%
Real estate - construction	2.88%	4.29%	3.77%	2.26%	2.08%
Real estate - mortgage	24.91%	25.74%	28.80%	30.18%	29.35%
Consumer	17.96%	17.91%	19.21%	20.31%	20.55%
	100.00%	100.00%	100.00%	100.00%	100.00%

The loan portfolio has increased steadily in the past three years, with the most significant portion of the growth occurring in the commercial, financial and agricultural loan category, as reflected in the above table. As a result, the portion of the allowance for loan losses allocated to commercial, financial and agricultural loans has increased at a faster rate over the past five years than the other portions of the allowance. This increase reflects the significant growth in the commercial loan portfolio and the higher risks associated with commercial lending as compared to real estate and consumer loans.

Non-performing assets and the relative percentages of such assets to loan balances are presented in Table 8 - Non-performing Assets. Non-performing loans include non-accrual loans, restructured loans, and loans delinquent 90 days or more. 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 other real estate owned (OREO), which represents properties acquired by the Company through foreclosure following loan defaults by customers; the percentage of OREO to total loans is .75% in 2004. OREO increased in 2004 due to the foreclosure on several loans that were collateralized by real estate. These loans were reported in the 90 days or more past due category in 2003.

Loans on non-accrual status amounted to \$3,146,041 in 2004 as compared to \$1,502,971 in 2003 and \$357,640 in 2002. Non-accrual loans increased in 2004 as management reclassified certain performing as non-accrual loans. These loans were reclassified on account of management's

uncertainty as to whether the Company would fully collect all principal and accrued interest due on these loans. Interest income forgone on loans classified as non-accrual in 2004 was \$229,286, as compared to \$169,135 in 2003 and \$69,888 in 2002. 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.

TABLE 8 - NON-PERFORMING ASSETS

AS OF DECEMBER 31,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
PRINCIPAL BALANCE - DOMESTIC					
Non-accrual	\$ 3,146	\$1,503	\$ 358	\$ 419	\$ 590
90 days or more past due	904	4,396	5,117	2,918	1,746
Troubled debt restructurings	—	—	—	—	—
TOTAL DOMESTIC LOANS	\$ 4,050	\$5,899	\$5,475	\$ 3,337	\$ 2,336
TOTAL NON-PERFORMING LOANS	\$ 4,050	\$5,899	\$5,475	\$ 3,337	\$ 2,336
Income on non-accrual loans not recorded	\$ 229	\$ 169	\$ 69	\$ 31	\$ 147
Non-performing as a percent of loans	1.10%	1.65%	1.78%	1.27%	0.93%
Other real estate owned	\$ 2,787	\$ 695	\$1,286	\$ 340	\$ 133
OREO as a percent of loans	0.75%	0.19%	0.42%	0.13%	0.05%
Allowance as a percent of non-performing loans	116.57%	86.91%	77.11%	101.14%	142.34%

SFAS Nos. 114 and 118, "Accounting by Creditors for Impairment of a Loan," was effective January 1, 1995. 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 considers the Company's nonaccrual loans as being impaired under FASB 114 and 118. The balance of nonaccrual (impaired) loans for the years 2004, 2003, 2002 were \$3,146,041, \$1,502,971 and \$357,640, respectively.

Management monitors any loans which 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 about 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 credits 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, 2004, loans totaling \$16,291,783 were included on the watch list of the Company. 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, 2004, the Company classified all of its securities as available-for-sale. Securities available-for-sale are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. The Company does not classify any securities as held to maturity or held for trading purposes.

Table 9 - Securities and Securities Maturity Schedule summarizes the carrying value of securities from 2002 through 2004 and the maturity distribution at December 31, 2004, by classification.

TABLE 9 – SECURITIES

	2004	2003	2002
SECURITIES AVAILABLE FOR SALE			
U. S. Treasury	\$ 4,103	\$ 15,528	\$ 19,093
U. S. Agencies	18,102	5,679	11,921
Mortgage Backed	49,404	59,368	87,687
State, Municipal and Other	80,107	62,606	43,575
TOTAL SECURITIES AVAILABLE FOR SALE	\$151,716	\$143,181	\$162,276
SECURITIES HELD TO MATURITY			
TOTAL SECURITIES HELD TO MATURITY	N/A	N/A	N/A
TOTAL SECURITIES	\$151,716	\$143,181	\$162,276

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. Treasury	\$2,055	4.24%	\$ 2,048	4.49%	—	0.00%	—	0.00%
U. S. Agencies	1,021	6.00%	—	0.00%	16,575	4.68%	506	5.37%
Mortgage Backed	2	7.00%	467	5.71%	—	0.00%	48,935	5.03%
State, Municipal and Other (1)	4,644	6.24%	8,069	5.45%	15,546	6.80%	51,848	6.58%
TOTAL AVAILABLE-FOR-SALE	\$7,722	5.21%	\$10,584	5.28%	\$32,121	5.71%	\$101,289	5.83%
TOTAL HELD-TO-MATURITY	N/A	0.00%	N/A	0.00%	N/A	0.00%	N/A	0.00%

(1) Average rates were calculated on tax equivalent basis using a marginal federal income tax rate of 34% and a state tax rate of 5%.

The change in the carrying value of the available-for-sale portfolio is due to market value fluctuations resulting from the changing interest rate environment during 2004. This change is not used in the Tier 1 capital calculation.

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 certificates of deposit. The deposit base is the Company's major funding source for earning assets. Although time deposits declined in 2004, they continue to be the largest single segment of the Company's total deposits. Time deposits declined because management did not aggressively price time deposits in the Company's markets, as management believed the Company had sufficient funds to meet loan demand.

A three-year schedule of deposits by type and maturities of time deposits greater than \$100,000 is presented in Table 10 - Deposit Information.

TABLE 10 - DEPOSIT INFORMATION

	2004		2003		2002	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$ 72,867	—	\$ 65,985	—	\$ 58,883	—
Interest-bearing demand	127,902	1.07%	123,338	0.98%	117,989	1.27%
Savings	37,591	0.85%	34,696	1.02%	27,653	1.75%
Certificates of deposit	219,150	1.85%	222,695	2.26%	209,610	3.20%
	\$457,510	1.44%	\$446,714	1.48%	\$414,135	2.10%

MATURITY RANGES OF TIME CERTIFICATES OF DEPOSIT
OF \$100,000 OR MORE,

	December 31, 2004
3 months or less	\$ 29,928
3 through 6 months	17,761
6 through 12 months	19,410
over 12 months	14,918
	\$ 82,017

The Company in its normal course of business will acquire large certificates of deposit, 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 certificates of deposit 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 and short-term advances from the Federal Home Loan Bank of Dallas ("FHLB"). Long-term borrowings are advances from the FHLB with an initial maturity of greater than one year.

TABLE 11 - SHORT-TERM BORROWINGS

	As of December 31,		
	2004	2003	2002
Federal Home Loan Bank borrowings			
Year-end balance	\$ 0	\$14,000	\$ 0
Weighted average rate	0.00%	1.11%	0.00%
Maximum month-end balance	\$12,000	\$15,000	\$ 0
Year to date average balance	\$ 2,907	\$ 1,229	\$ 0
Weighted average rate	1.05%	1.15%	0.00%

The Company borrows funds for short periods of time from the Federal Home Loan Bank as an alternative to Federal Funds Purchased. At December 31, 2004, the Company did not have any short term borrowings.

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, 2004, the Company had the capacity to borrow up to \$173,374,180 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.

The Company, at the end of 2004, had long-term debt in the amount of \$46,118,566 to the FHLB for advances and \$1,472,929 payable to the State of Mississippi for advances under the Mississippi Agribusiness Enterprise Loan Program. This program provides interest-free loans to banks to fund loans to qualifying farmers. Farmers that qualify for the program receive 20% of their loan at zero interest. When the loan is repaid, the State of Mississippi receives 20% of the principal payment. The remaining maturity schedule of the long-term debt at December 31, 2004 is listed below.

	2004
Less than one year	\$10,268
One year to three years	852
Over three years	36,471
Total Long-term borrowings	\$47,591

NON-INTEREST INCOME AND EXPENSE

Table 12 - Non-interest Income and Expense illustrates the Company's non-interest income and expense from 2002 through 2004 and percentage changes between such years.

TABLE 12 - NON-INTEREST INCOME & EXPENSE

	2004	% CHANGE FROM '03	2003	% CHANGE FROM '02	2002
NON-INTEREST INCOME					
Service charges on deposit accounts	\$ 3,391	4.82%	\$ 3,235	7.72%	\$ 3,027
Other operating income	2,184	4.55%	2,089	20.29%	1,408
TOTAL NON-INTEREST INCOME	\$ 5,575	4.71%	\$ 5,324	11.43%	\$ 4,435
NON-INTEREST EXPENSE					
Salaries and employee benefits	\$ 8,607	8.59%	\$ 7,926	26.91%	\$ 7,103
Occupancy expense, including equipment	2,938	7.03%	2,745	41.75%	2,312
Other operating expense	5,168	18.23%	4,371	44.48%	4,450
TOTAL NON-INTEREST EXPENSE	\$16,713	11.11%	\$15,042	34.51%	\$13,865

Non-interest income typically consists of service charges on checking accounts 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, title insurance service fees and income contributions from the Company's credit life insurance subsidiary.

For the year 2004, non-interest income increased \$250,933, or 4.71%, when compared to the same period in 2003. This increase was due mainly to an increase in income derived from the purchase of \$12 million in bank-owned life insurance in November, 2003.

During 2003, non-interest income increased to \$5,323,698 from 2002, an increase of \$888,536, or 20.05%. The significant increase in mortgage re-financings, which resulted in an increase in mortgage origination fee income during 2003 contributed to the increased non-interest income as did the receipt of \$600,000 of insurance proceeds from the untimely death of one of our longtime directors.

Non-interest expenses consist of salaries and benefits, occupancy expense and other overhead expenses incurred by the Company in the transaction of its business. For 2004, non-interest expenses increased \$1,670,969, or 11.1%, to \$16,712,956. This increase was caused mainly by increases in salaries and benefits and normal growth in other operating expenses. Legal, audit and accounting expenses increased \$222,456, or 96%, in large part to efforts undertaken by the Company to comply with the Sarbanes-Oxley Act of 2002.

Non-interest expense for 2003 increased \$1,177,370, or 8.49%, to \$15,041,985 from 2002. This increase was due mainly to normal growth of the Company.

In 2004, the Company's efficiency ratio was 57.65%, compared to 54.45% in 2003 and 54.51% in 2002. 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. The increase in the efficiency ratio over the past three years reflects increases in non-interest expense associated with managing the growth in assets during the period and incorporating the personnel added in connection with the CB&T acquisition.

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 Company's effective tax rate was 26.23%, 28.98% and 32.01% in 2004, 2003, and 2002, respectively. The major difference between the effective tax rate applied to the Company's financial statement income and the federal statutory rate of 34% is interest on tax-exempt securities and loans. Further tax information is disclosed in Note 8 to the consolidated financial statements.

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 Bank'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, federal funds purchased, and short-term and long-term borrowing from the FHLB. In 2004, the Company experienced good growth in deposits (an increase of 8.2% over 2003) and was able to reduce the amount of short term borrowings necessary to fund loan growth. The Company relies upon non-core sources of funding, such as federal funds purchased and short and long term borrowings from the FHLB, when deposit growth is not adequate to meet its 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.

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 solicit certificates of deposit from brokers. The primary sources of liquidity on the asset side of the balance sheet are federal funds sold and securities classified as available-for-sale. The entire investment securities portfolio is classified in the available-for-sale category, and is available to be sold, should liquidity needs arise. Management, through its Asset Liability Committee (ALCO), and the Board reviews the Company's liquidity position on a monthly basis. At December 31, 2004, both the ALCO and the Board determined that the Company's liquidity position was adequate.

Table 13 - Funding Uses and Sources details the main components of cash flows for 2004 and 2003.

TABLE 13 - FUNDING USES AND SOURCES

	2004			2003		
	Average Balance	Increase/(decrease)		Average Balance	Increase/(decrease)	
		Amount	Percent		Amount	Percent
FUNDING USES						
Loans, net of unearned income	\$364,922	\$ 27,159	8.04%	\$337,763	\$48,356	16.71%
Taxable securities	72,023	(36,672)	-33.74%	108,695	(6,815)	-5.90%
Tax-exempt securities	66,542	17,359	35.29%	49,183	15,017	43.95%
Federal funds sold and other	6,031	2,456	68.70%	3,575	(8,853)	-71.23%
TOTAL USES	\$509,518	\$ 10,302	2.06%	\$499,216	\$47,705	10.57%
FUNDING SOURCES						
Noninterest-bearing deposits	\$ 72,867	\$ 6,882	10.43%	\$ 65,985	\$ 7,533	12.89%
Interest-bearing demand and savings deposits	165,493	7,459	4.72%	158,034	12,392	8.51%
Time Deposits	219,150	(3,545)	-1.59%	222,695	13,085	6.24%
Short-term borrowings	1,113	(2,952)	-72.62%	4,065	3,406	516.84%
Long-term debt	41,607	6,293	17.82%	35,314	16,013	82.96%
TOTAL SOURCES	\$500,230	\$ 14,137	2.91%	\$486,093	\$52,429	12.09%

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" 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 (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.

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, 2004, as noted below in Table 14 - Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

TABLE 14 - CAPITAL RATIOS

	At December 31,		
	2004	2003	2002
Tier 1 capital			
Shareholders' equity	\$ 60,191	\$ 56,502	\$ 53,783
Less: Intangibles	(5,827)	(6,390)	(6,814)
Add/less: Unrealized loss/(gain) on securities	(400)	(1,470)	(2,931)
Add: Minority interest in equity accounts of unconsolidated subsidiaries	1,466	1,383	1,376
TOTAL TIER 1 CAPITAL	\$ 55,430	\$ 50,025	\$ 45,414
Total capital			
Tier 1 capital	\$ 55,430	\$ 50,025	\$ 45,414
Allowable allowance for loan losses	4,721	4,577	3,849
TOTAL CAPITAL	\$ 60,151	\$ 54,602	\$ 49,263
RISK WEIGHTED ASSETS	\$391,754	\$365,589	\$307,573
AVERAGE ASSETS (FOURTH QUARTER)	\$570,342	\$549,314	\$514,249
RISK BASED RATIOS TIER 1	14.14%	13.68%	14.77%
TOTAL CAPITAL	15.39%	14.94%	16.02%
LEVERAGE RATIOS	9.72%	9.11%	8.83%

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 our service area. By following this strategy, the Company was able to purchase CB&T in May, 2002, without having to raise additional capital. Over the past three years, the Company has been able to increase the amount of its capital, through retention of earnings, while still increasing the dividend payout ratio to approximately 40% 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 11, "Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentration of Risks," in the notes to the Company's financial statements.

CONTRACTUAL OBLIGATIONS

The Company's long term contractual obligations, comprised entirely of obligations under operating lease agreements, can be found in Note 12, "Lease Commitments and Total Rental Expense," in the notes to the Company's financial statements.

OVERVIEW

The definition of market risk is the possibility of loss that could result from adverse changes in market prices and/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.

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. This report utilizes an immediate 200 basis point rate movement up and down and measures the effect this change has on earnings and the value of equity.

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, 2004 (\$ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	\$ 125,242	\$ 50,542
Total rate sensitive liabilities	247,883	111,845
Net gap	\$(122,641)	\$(61,303)

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

Management believes that static gap analysis does not fully capture the impact of interest rate movements on interest sensitive assets and liabilities. Thus, the Company also measures interest rate risk by analyzing interest rate sensitivity and the rate sensitivity gap. Table 15 - Interest Rate Sensitivity provides additional information about the financial instruments that are sensitive to changes in interest rates. This tabular disclosure is limited by its failure to depict accurately the effect on assumptions of significant changes in the economy or interest rates or changes in management's expectations or intentions relating to the Company's financial statements. The information in the interest rate sensitivity table below reflects contractual interest rate pricing dates and contractual maturity dates. For indeterminate maturity deposit products (money market, NOW and savings accounts), the tables present principal cash flows in the shortest term. Although these deposits may not reprice within this time frame, the depositors of such funds have the ability to reprice. Weighted average floating rates are based on the rate for that product as of December 31, 2004 and 2003.

TABLE 15 - INTEREST RATE SENSITIVITY

As of December 31, 2004

INTEREST RATE SENSITIVITY

	DECEMBER 31, 2004						Carrying Value	Fair Value
	2005	2006	2007	2008	2009	Thereafter		
Loans								
Fixed Rate	\$ 25,404	\$ 19,812	\$ 42,054	\$ 72,809	\$ 62,573	\$ 55,089	\$ 277,741	\$ 276,150
Average Int Rate	9.21%	8.63%	7.68%	6.40%	6.59%	6.69%	7.09%	
Floating Rate	\$ 71,933	\$ 6,454	\$ 4,302	\$ 2,160	\$ 1,296	\$ 982	\$ 87,127	\$ 87,127
Average Int Rate	5.65%	5.55%	5.32%	5.41%	5.30%	5.35%	5.61%	
Investment securities								
Fixed Rate	\$ 7,723	\$ 3,606	\$ 8,153	\$ 25,418	\$ 17,178	\$ 89,638	\$ 151,716	\$ 151,716
Average Int Rate	5.17%	4.91%	5.26%	4.95%	4.94%	6.05%	5.63%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate	\$ 11,000						\$ 11,000	\$ 11,000
Average Int Rate	2.06%						2.06%	
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$ 338,117	\$ 34,271	\$ 1,663	\$ 10			\$ 374,061	\$ 374,224
Average Int Rate	1.37%	2.38%	3.97%	2.65%				
Floating Rate	\$ 10,691	\$ 7,606	\$ 3,810	\$ 171	\$ 54		\$ 22,332	\$ 22,332
Average Int Rate	2.45%	2.45%	2.45%	2.45%	2.45%		2.45%	
Other int-bearing liabilities								
Fixed Rate	\$ 11,070	\$ 649		\$ 10,000	\$ 5,000	\$ 19,400	\$ 46,119	\$ 46,711
Average Int Rate	2.40%	4.94%		5.56%	5.26%	4.14%	4.16%	
Floating Rate								
Average Int Rate								

As of December 31, 2003

	2004	2005	2006	2007	2008	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$118,504	\$46,225	\$39,860	\$40,912	\$33,480	\$ 12,491	\$291,472	\$284,743
Average Int Rate	7.21%	7.68%	7.31%	6.98%	6.59%	6.58%	7.16%	
Floating Rate	\$ 26,221	\$ 7,230	\$ 5,973	\$ 5,401	\$15,293	\$ 7,490	\$ 67,608	\$ 67,608
Average Int Rate	4.74%	4.70%	4.69%	4.70%	4.40%	4.90%	4.67%	
Investment Securities								
Fixed Rate	\$ 13,210	\$ 4,828	\$ 3,739	\$ 1,379	\$ 1,584	\$118,441	\$143,181	\$143,181
Average Int Rate	4.50%	5.21%	4.85%	6.14%	6.40%	5.76%	5.61%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$319,614	\$29,517	\$ 3,059	\$ 1,361	\$ 325	\$ 0	\$353,876	\$353,946
Average Int Rate	1.22%	2.59%	3.57%	4.23%	4.88%	0.00%	1.37%	
Floating Rate	\$ 6,045	\$11,084	\$ 4,434	\$ 25	\$ 135	\$ 28	\$ 21,751	\$ 21,751
Average Int Rate	1.85%	1.85%	1.85%	1.85%	1.85%	1.85%	1.85%	
Other int-bearing liabilities								
Fixed Rate	\$ 16,519	\$ 1,070	\$ 648	\$ 0	\$10,000	\$ 20,900	\$ 49,137	\$ 48,956
Average Int Rate	1.36%	4.94%	4.94%	0.00%	5.56%	4.32%	3.60%	
Floating Rate								
Average Int Rate								

Rate sensitivity gap analysis is another tool management uses to measure interest rate risk. The rate sensitivity gap is the difference between the repricing of interest earning assets and the repricing of interest bearing liabilities within certain defined time frames. The Company's interest rate sensitivity position is influenced by the distribution of interest earning assets and interest-bearing liabilities among the maturity categories. Table 16 - Rate Sensitivity Gap reflects interest earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2004.

Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 16 - RATE SENSITIVITY GAP

AT DECEMBER 31, 2004

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
INTEREST EARNING ASSETS					
Loans	\$ 106,406	\$ 35,672	\$182,481	\$36,029	\$360,588
Investment securities	7,017	14,870	79,742	46,610	148,239
Federal Home Loan Bank Account	819	—	—	—	819
Federal Funds Sold	11,000	—	—	—	11,000
TOTAL INTEREST BEARING ASSETS	\$ 125,242	\$ 50,542	\$262,223	\$82,639	\$520,646
INTEREST BEARING LIABILITIES					
Interest bearing demand deposits	\$ 129,814	\$ —	\$ —	\$ —	\$129,814
Savings and Money Market deposits	56,804	—	—	—	56,804
Time deposits	61,001	101,038	47,585	—	209,624
Federal Funds Purchased	—	—	—	—	—
Short term borrowings	—	—	—	—	—
Long term borrowings	264	10,807	29,147	5,900	46,118
TOTAL INTEREST BEARING LIABILITIES	\$ 247,883	\$ 111,845	\$ 76,732	\$ 5,900	\$442,360
Rate sensitive gap	\$(122,641)	\$ (61,303)	\$185,491	\$76,739	\$ 78,286
Rate sensitive cumulative gap	(122,641)	(183,944)	1,547	78,286	
Cumulative gap as a percentage of total earning assets	-23.56%	-35.33%	0.30%	15.04%	

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.

The rate sensitivity gap table illustrates that the Company had a large negative cumulative gap position for the one-year period ending December 31, 2004. This negative gap position was mainly due to: (1) the interest-bearing and savings deposits being classified in the 1-90 day category; (2) approximately 77% of certificates of deposit maturing during the next twelve months; and (3) a significant portion of the Company's loans maturing after one year.

The interest rate sensitivity and rate sensitivity gap tables, taken together, indicate that the Company continues to be in a liability sensitive position when evaluating the maturities of interest bearing items. Thus, a decline in the interest rate environment would enhance earnings, while an increase in interest rates would have the opposite effect on corporate earnings. The Company has attempted to mitigate the impact of its interest rate position. The Company has increased the amount of its variable rate loans and also has lengthened the maturities of some of its interest bearing deposits. The Company has also increased the amount of its transaction accounts by paying a competitive rate on those accounts; at the same time, it has not participated in the higher yielding certificates of deposit. The effect of any changes in interest rates on the Company would be mitigated by the fact that interest-bearing demand and savings deposits may not be immediately affected by changes in general interest rates.

Although short and medium term interest rates rose in 2004 in connection with increases in the Federal Funds rate by the Federal Reserve Bank, the effect on the Company was marginal. The Company's net interest margin in 2004 rose 12 basis points to 4.61%. Even as rates were rising, the Company's rate paid on liabilities declined to 1.76% in 2004. This decrease was caused by a lower rate paid on certificates of deposit, a shift in deposit mix from certificates of deposit to interest bearing transaction accounts and a lower rates paid on long-term borrowings.

Quarterly Financial Trends

	2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
Interest Income	\$7,233	\$7,366	\$7,502	\$7,871	\$29,972
Interest Expense	1,824	1,807	1,908	1,998	\$ 7,537
Net Interest Income	5,409	5,559	5,594	5,873	\$22,435
Provision for Loan Losses	450	450	122	45	\$ 1,067
Non-interest Income	1,261	1,531	1,365	1,418	\$ 5,575
Non-interest Expense	3,977	4,145	4,190	4,402	\$16,714
Income Taxes	570	693	709	712	\$ 2,683
Net Income	\$1,673	\$1,802	\$1,938	\$2,132	\$ 7,546
Per common share:					
Basic	\$ 0.34	\$ 0.36	\$ 0.39	\$ 0.43	\$ 1.51
Diluted	\$ 0.33	\$ 0.36	\$ 0.38	\$ 0.42	\$ 1.49
Cash Dividends	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.60

	2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year to Date
Interest Income	\$7,339	\$7,407	\$7,511	\$7,468	\$29,725
Interest Expense	2,174	2,076	2,028	1,910	8,188
Net Interest Income	5,165	5,331	5,483	5,558	21,537
Provision for Loan Losses	375	375	717	536	\$ 2,003
Non-interest Income	1,105	1,353	1,674	1,192	\$ 5,324
Non-interest Expense	3,703	3,683	3,821	3,835	\$15,042
Income Taxes	672	855	706	612	\$ 2,845
Net Income	\$1,520	\$1,771	\$1,913	\$1,767	\$ 6,971
Per common share:					
Basic	\$ 0.31	\$ 0.36	\$ 0.38	\$ 0.36	\$ 1.40
Diluted	\$ 0.30	\$ 0.35	\$ 0.38	\$ 0.35	\$ 1.39
Cash Dividends	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.15	\$ 0.57

Market Price and Dividend Information

Market Price.

The Company's Common Stock is traded on the American Stock Exchange ("AMEX") under the symbol "CIZ". The stock began trading on the AMEX on October 19, 1999 and prior to that date was sold in private transactions between parties. On December 31, 2004, the Common Stock's closing price was \$20.50. The following table sets forth the high and low sales prices for the common stock, as well as the dividends declared, in each quarter in the past two fiscal years.

<u>2003</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$16.10	\$14.35	\$ 0.14
April - June	17.00	14.75	0.14
July - September	19.00	16.00	0.14
October - December	24.75	18.25	0.15
<u>2004</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$22.95	\$21.12	\$ 0.15
April - June	23.45	20.80	0.15
July - September	21.65	20.05	0.15
October - December	21.75	19.90	0.15

Per share information included in the above table has been adjusted to reflect the three-for-two (3:2) common stock split effective January 2, 2002.

On March 14, 2005, the shares of Common Stock were held of record by approximately 475 shareholders.

Dividends

Dividends, retroactively adjusted to give effect to the three-for-two stock split, totaled \$0.60 per share for 2004 compared to \$0.57 per share for 2003. These dividends reflect a 5.3% increase in 2004 over 2003.

The Company 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 dividends; the amount of any dividend is limited to earned surplus in excess of three times its capital stock. At December 31, 2004, the maximum amount available for transfer from the Bank in the form of cash dividends 9% of its consolidated net assets.

Federal Reserve regulations also limit the amount the Bank may loan to the Company unless such loans are collateralized by specific obligations. At December 31, 2004, the maximum amount available for transfer from the Bank in the form of cash dividends and loans was 19% of its consolidated net assets.

THE CITIZENS BANK OFFICERS

Greg McKee
President & CEO

Danny Hicks
Sr. Vice President

Robert T. Smith
Sr. Vice President & CFO

Erdis Chaney
Vice President & Cashier

Tim Lofton
Vice President & CIO

Randy Cheatham
Vice President

Mike Guthrie
Vice President

Joe Foster
Vice President & Trust

Murray Johnson
Vice President

Jackie Hester
Vice President & Marketing

Kaye Johnson
Vice President

Stanley Salter
Vice President

Darrell Bates
Vice President

David Sharp
Vice President & Compliance

Jean T. Fulton
Vice President & Auditor

Gayle Sharp
Vice President

Mark Majure
Assistant Vice-President

Brad Copeland
Assistant Vice-President

Carolyn K. McKee
Student Loan Officer

Beth Branning
Assistant Cashier

Pat Stokes
Assistant Cashier

Adriana Burt
Assistant Cashier

Mitch Peden
Data Processing Officer

Sommer Vick
Accounting Officer

Mark Flake
Data Processing Officer

Barbara Lewis
Assistant Cashier

Greg Jackson
Accounting Officer

Patsy Smith
Assistant Cashier

Carthage Branch

Mike Brooks
President

J. Michael Ellis
Vice President

Billie Nell Dowdle
Vice President

Byron Hines
Vice President

Margaret Thompson
Assistant Cashier

Carol Wright
Assistant Cashier

Sebastopol Branch

Linda Bennett
President

Union Branch

Robert C. Palmer, Jr.
President

Karen Foster
Assistant Vice President

Deborah Rigdon
Assistant Cashier

DeKalb Branch

Steven Lockley
Vice President

Scooba Branch

Fran Knight
Vice President

Kosciusko Branch

Charlie Hudson
President

David Blair
Vice-President

Joanne Sanders
Assistant Cashier

Meridian Branch

Charles Young
President

Mac Hodges
Vice President

Forest Branch

Richard Latham
Vice President

Dymple Winstead
Assistant Vice President

Decatur Branch

Ken Jones
Vice President

Louisville Branch

Tery Woods
President

Edna Bell
Vice President

Stan Acy
Vice President

Marion Gardner
Assistant Cashier

Danny Parker
Assistant Cashier

Bruce Lee
Assistant Cashier

Stanley Cunningham
Loan Officer

Mortgage Loan Department

Linda Stribling
Mortgage Loan Officer

BOARD OF DIRECTORS

Karl Brantley
Retired Plant Manager
U. S. Electrical Motors

W. W. Dungan
Partner
McDaniel Timber Company

Don Fulton
President & General Manager
Nemanco, Inc.

Don L. Kilgore
Attorney
Alford, Thomas & Kilgore, P.A.

Steve Webb
Chairman
Citizens Holding Company and
The Citizens Bank

David A. King
Proprietor
Philadelphia Motor Company

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

William M. Mars
Retired Attorney
Mars, Mars, Mars & Chalmers, P. A.

Greg L. McKee
President & CEO
Citizens Holding Company and
The Citizens Bank

David P. Webb
Attorney
Phelps Dunbar, LLP

CITIZENS HOLDING COMPANY OFFICERS

Steve Webb
Chairman

Greg L. McKee
President and CEO

Carolyn K. McKee
Secretary

Robert T. Smith
Treasurer and Chief Financial Officer

BANKING LOCATIONS**The Citizens Bank****Main Office**

521 Main Street
Philadelphia, MS 39350
601.656.4692

Westside Branch

912 West Beacon Street
Philadelphia, MS 39350
601.656.4978

Northside Branch

802 Pecan Avenue
Philadelphia, MS 39350
601.656.4977

Eastside Branch

599 East Main Street
Philadelphia, MS 39350
601.656.4976

Pearl River Branch

110 Choctaw Town Center
Philadelphia, MS 39350
601.656.4971

Union Branch

502 Bank Street
Union, MS 39365
601.656.4879
601.774.9231

Carthage Main Office

219 West Main Street
Carthage, MS 39051
601.257.4525

Phone Teller

1.800.397.0344

Crossroads Branch

501 Hwy 35 south
Carthage, MS 39051
601.267.4525

Madden Branch

53 Dr. Brantley Road
Madden, MS 39109
601.267.7366

Sebastopol Branch

24 Pine Street
Sebastopol, MS 39359
601.625.7447

DeKalb Branch

Corner of Main & Bell St.
DeKalb, MS 39328
601.743.2115

Kosciusko Branch

775 North Jackson Street
Kosciusko, MS 39090
662.289.4356

Scooba Branch

1048 Johnson Street
Scooba, MS 39358
662.476-8431

Meridian Branch

1825 Hwy 39 North
Meridian, MS 39301
601.693.8367

Internet Banking

<http://www.thecitizensbankphila.com>

Decatur Branch

15330 Hwy 15 South
Decatur, MS 39327
601.635.2321

Forest Branch

247 Woodland Drive North
Forest, MS 39074
601.469.3424

Louisville Branch

100 East Main Street
Louisville, MS 39339
662.773.6261

Noxapater Branch

45 East Main Street
Noxapater, MS 39346
662.724.4261

Industrial Branch

803 South Church Street
Louisville, MS 39339
662.773.6261

FINANCIAL INFORMATION**CORPORATE HEADQUARTERS**

521 Main Street
P.O. Box 209
Philadelphia, MS 39350
601.656.4692

ANNUAL STOCKHOLDER MEETING

The Annual Stockholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 26, 2005, at 3:30 P.M. at 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 Corporation's most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge to stockholder's upon request to the Treasurer of the Citizens Holding Company.

FINANCIAL CONTACT

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

601.656.4692
www.thecitizensbankphila.com

NOTES

Exhibit 21 – Subsidiaries of the Registrant

The following is a list of subsidiaries of the Company at December 31, 2004:

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>	<u>Approximate Percentage of Voting Securities Owned</u>
The Citizens Bank of Philadelphia, Mississippi	Mississippi	97.56%

[HORNE LLP LETTERHEAD]

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement on Form S-8 (No. 333-89680) of Citizens Holding Company of our reports dated February 25, 2005, relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting which appear in the 2005 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, 2004.

/s/ HORNE LLP
Jackson, Mississippi
March 15, 2005

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Greg L. McKee, certify that:

1. I have reviewed this annual report on Form 10-K of The 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 internal 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 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 8, 2005

by: /s/ Greg L. McKee

Greg L. McKee
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert T. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of The 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 internal 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 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 8, 2005

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer

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

In connection with the Annual Report on Form 10-K of The Citizens Holding Company (the "Company") for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg L. McKee, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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 8, 2005

by: /s/ Greg L. McKee

Greg L. McKee
Chief Executive Officer

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

In connection with the Annual Report on Form 10-K of The Citizens Holding Company (the "Company") for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert T. Smith, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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 8, 2005

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer