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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from_________ to _________

Commission File Number: 001-15375

CITIZENS HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Mississippi (State or other jurisdiction of incorporation or organization)	**64-0666512** (IRS Employer Identification No.)
521 Main Street, Philadelphia, MS (Address of principal executive offices)	**39350** (Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller Reporting Company	☐

Emerging growth company ☐

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

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

Number of shares outstanding of each of the issuer's classes of common stock, as of May 7, 2019:

Title	Outstanding
Common Stock, $0.20 par value	**4,912,030**

CITIZENS HOLDING COMPANY
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

CITIZENS HOLDING COMPANY CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash and due from banks	$ 12,462,550	$ 12,592,130
Interest bearing deposits with other banks	27,122,108	8,079,742
Investment securities available for sale, at fair value	507,791,195	444,746,454
Loans, net of allowance for loan losses of $3,559,896 in 2019 and $3,371,695 in 2018	443,909,475	425,905,093
Premises and equipment, net	19,556,205	19,717,305
Other real estate owned, net	3,440,148	3,440,148
Accrued interest receivable	4,326,455	4,165,783
Cash surrender value of life insurance	25,532,529	25,383,931
Deferred tax assets, net	4,601,116	6,633,539
Other assets	8,650,695	7,965,952
TOTAL ASSETS	$1,057,392,476	$ 958,630,077
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 171,555,937	$ 170,029,729
Interest-bearing NOW and money market accounts	369,049,299	298,220,430
Savings deposits	77,317,063	76,735,710
Certificates of deposit	222,237,684	211,235,641
Total deposits	840,159,983	756,221,510
Securities sold under agreement to repurchase	115,450,591	107,965,505
Accrued interest payable	650,685	470,710
Deferred compensation payable	9,135,798	9,052,972
Other liabilities	1,416,362	1,053,063
Total liabilities	966,813,419	874,763,760
SHAREHOLDERS' EQUITY		
Common stock, $0.20 par value, 22,500,000 shares authorized, 4,904,530 shares issued and outstanding at March 31, 2019 and December 31, 2018	980,906	980,906
Additional paid-in capital	4,339,843	4,298,499
Retained earnings	93,611,199	93,561,515
Accumulated other comprehensive loss, net of tax benefit of $2,776,877 at March 31, 2019 and $4,978,232 at December 31, 2018	(8,352,891)	(14,974,603)
Total shareholders' equity	90,579,057	83,866,317
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,057,392,476	$ 958,630,077

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

Table of Contents

CITIZENS HOLDING COMPANY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended March 31, 2019	2018
INTEREST INCOME		
Interest and fees on loans	$5,449,535	$4,716,419
Interest on securities		
Taxable	2,082,005	2,204,959
Nontaxable	616,779	617,729
Other interest	235,106	60,284
Total interest income	8,383,425	7,599,391
INTEREST EXPENSE		
Deposits	1,728,672	501,209
Other borrowed funds	445,027	293,431
Total interest expense	2,173,699	794,640
NET INTEREST INCOME	6,209,726	6,804,751
PROVISION FOR (REVERSAL OF) LOAN LOSSES	195,479	(236,773)
NET INTEREST INCOME AFTER PROVISION FOR (REVERSAL OF) LOAN LOSSES	6,014,247	7,041,524
OTHER INCOME		
Service charges on deposit accounts	1,096,692	1,143,593
Other service charges and fees	683,640	668,464
Other operating income	266,579	288,373
Total other income	2,046,911	2,100,430
OTHER EXPENSES		
Salaries and employee benefits	3,546,669	3,667,857
Occupancy expense	1,422,427	1,525,379
Other expense	1,670,121	1,854,446
Total other expenses	6,639,217	7,047,682
INCOME BEFORE PROVISION FOR INCOME TAXES	1,421,941	2,094,272
PROVISION FOR INCOME TAXES	195,170	321,885
NET INCOME	$1,226,771	$1,772,387
NET INCOME PER SHARE -Basic	$ 0.25	$ 0.36
-Diluted	$ 0.25	$ 0.36
DIVIDENDS PAID PER SHARE	$ 0.24	$ 0.24

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

CITIZENS HOLDING COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the Three Months Ended March 31, 2019	2018
Net income	$ 1,226,771	$ 1,772,387
Other comprehensive income (loss)		
Securities available-for-sale		
Unrealized holding gains (losses)	8,823,067	(9,416,226)
Income tax effect	(2,201,355)	2,349,348
	6,621,712	(7,066,878)
Rclassification adjustment for gains included in net income	—	8,021
Income tax effect	—	(2,001)
	—	6,020
Total other comprehensive income (loss)	6,621,712	(7,060,858)
Comprehensive income (loss)	$ 7,848,483	$(5,288,471)

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

Table of Contents

CITIZENS HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operating activities	$ 1,978,070	$ 2,567,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities available for sale	8,335,984	10,181,801
Proceeds from sale of investment securities	—	14,752,618
Purchases of investment securities available for sale	(63,402,575)	—
Purchases of bank premises and equipment	(45,304)	(32,732)
Decrease in interest bearing deposits with other banks	(19,042,366)	(18,592,714)
Proceeds from sale of other real estate	—	667,253
Net increase in loans	(18,199,861)	(2,929,881)
Net cash (used in) provided by investing activities	(92,354,122)	4,046,345
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	83,938,473	64,941,584
Net change in securities sold under agreement to repurchase	7,485,086	(43,654,076)
Increase in federal funds purchased	—	(1,500,000)
Repayment of Federal Home Loan Bank advances	—	(30,000,000)
Payment of dividends	(1,177,087)	(1,174,729)
Net cash used in (provided by) financing activities	90,246,472	(11,387,221)
Net decrease in cash and due from banks	(129,580)	(4,772,984)
Cash and due from banks, beginning of period	12,592,130	17,962,990
Cash and due from banks, end of period	$ 12,462,550	$ 13,190,006

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

CITIZENS HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the three months ended March 31, 2019
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). However, these interim consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The interim consolidated financial statements are unaudited and reflect all adjustments and reclassifications, which, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition as of and for the interim periods presented. All adjustments and reclassifications are of a normal and recurring nature. Results for the period ended March 31, 2019 are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

The interim consolidated financial statements of Citizens Holding Company (the "Company") include the accounts of its wholly-owned subsidiary, The Citizens Bank of Philadelphia (the "Bank" and collectively with the Company, the "Corporation"). In addition to full service commercial banking, the Bank offers title insurance services through its subsidiary, Title Services LLC. All significant intercompany transactions have been eliminated in consolidation.

For further information and significant accounting policies of the Corporation, see the Notes to Consolidated Financial Statements of Citizens Holding Company included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 15, 2019.

Nature of Business

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 Company. The Company is also subject to the regulations of the Federal Reserve. The area served by the Bank is east central and southern counties of Mississippi and the surrounding areas. Services are provided at several branch offices.

Estimates

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

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

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

Adoption of New Accounting Standards

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

The Company's operating leases relate primarily to branch properties and related equipment. As a result of implementing ASU 2016-02, we recognized an operating lease right-of-use ("ROU") asset of $1.086 million and an operating lease liability of $1.086 million on January 1, 2019, with no impact on our consolidated statements of income or condensed consolidated statement of cash flows compared to the prior lease accounting model. The ROU asset and liability are recorded in other assets and other liabilities, respectively, in the consolidated statements of condition. See Note 8. Premises and Equipment for additional information.

Newly Issued, But Not Yet Effective Accounting Standards

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 makes significant changes to the accounting for credit losses on financial instruments and disclosures about them. The new current expected credit loss (CECL) impairment model will require an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics, determining the contractual terms of said financial assets and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. The Company will adopt ASU 2016-13 on January 1, 2020. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018, however, the Company does not currently plan to early adopt the ASU. ASU 2016-13 permits the use of estimation techniques that are practical and relevant to the Company's circumstances, as long as they are applied consistently over time and faithfully estimate expected credit losses in accordance with the standard. The ASU lists several common credit loss methods that are acceptable such as a discounted cash flow method, loss-rate method and probability of default/loss given default (PD/LGD) method. Depending on the nature of each identified pool of financial assets with similar risk characteristics, the Company currently plans on implementing a PD/LGD method or a loss-rate method to estimate expected credit losses. The Company expects ASU 2016-13 to have a significant impact on the Company's accounting policies, internal controls over financial reporting and footnote disclosures. The Company has assessed its data and system needs and has begun designing its financial models to estimate expected credit losses in accordance with the standard. Further development, testing and evaluation of said models is required to determine the impact that adoption of this standard will have on the financial condition and results of operations of the Company.

ASU 2018-13 "*Fair Value Measurement (Topic 820) – Changes in the Disclosure Requirements for Fair Value Measurement*" ("ASU 2018-13") removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 fair value measurement methodologies, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. It also adds a requirement to disclose changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. For certain unobservable inputs, entities may disclose other quantitative information in lieu of the weighted average if the other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. Management is currently evaluating the impact this ASU will have on the Company's financial statements.

Note 2. Commitments and Contingent Liabilities

In the ordinary course of business, the Corporation enters into commitments to extend credit to its customers. The unused portion of these commitments is not reflected in the accompanying financial statements. As of March 31, 2019, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of $61,031,088 compared to an aggregate unused balance of $58,835,208 at December 31, 2018. There were $2,474,810 of letters of credit outstanding at March 31, 2019 and $2,516,810 at December 31, 2018. The fair value of such commitments is not considered material because letters of credit and loan commitments often are not used in their entirety, if at all, before they expire. The balances of such letters and commitments should not be used to project actual future liquidity requirements. However, the Corporation does incorporate expectations about the utilization under its credit-related commitments and into its asset and liability management program.

The Corporation is a party to lawsuits and other claims that arise in the ordinary course of business, all of which are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provisions are made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not likely have a material impact on the Corporation's consolidated financial condition or results of operations.

Note 3. Net Income per Share

Net income per share - basic has been computed based on the weighted average number of shares outstanding during each period. Net income per share - diluted has been computed based on the weighted average number of shares outstanding during each period plus the dilutive effect of outstanding stock options and restricted stock using the treasury stock method. Net income per share was computed as follows:

	For the Three Months Ended March 31,	
	2019	2018
Basic weighted average shares outstanding	4,892,530	4,882,705
Dilutive effect of granted options	2,598	5,802
Diluted weighted average shares outstanding	4,895,128	4,888,507
Net income	$1,226,771	$1,772,387
Net income per share-basic	$ 0.25	$ 0.36
Net income per share-diluted	$ 0.25	$ 0.36

Note 4. Equity Compensation Plans

The Corporation has adopted the 2013 Incentive Compensation Plan (the "2013 Plan"), which the Corporation intends to use for future equity grants to employees, directors or consultants until the termination or expiration of the 2013 Plan.

Prior to the adoption of the 2013 Plan, the Corporation issued awards to directors from the 1999 Directors' Stock Compensation Plan (the "Directors' Plan"), which has expired.

The following table is a summary of the stock option activity for the three months ended March 31, 2019:

	Directors' Plan		2013 Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2018	52,500	$ 21.55	—	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Outstanding at March 31, 2019	52,500	$ 21.55	—	$ —

The intrinsic value of options outstanding under the Directors' Plan at March 31, 2019, was $69,810. No options were outstanding under the 2013 Plan as of March 31, 2019.

During 2018, the Corporation's directors received restricted stock grants totaling 7,500 shares of common stock under the 2013 Plan. These grants vest over a one-year period ending April 25, 2019 during which time the recipients have rights to vote the shares and to receive dividends. The grant date fair value of these shares was $165,375 and will be recognized over the one-year vesting period at a cost of $13,781 per month less deferred taxes of $3,438 per month.

Note 5. Income Taxes

For the three months ended March 31, 2019 and 2018, the Company recorded a provision for income taxes totaling $195 thousand and $322 thousand, respectively. The provision for income taxes includes both federal and state income taxes and differs from the statutory rate due to favorable permanent differences. The effective tax rate was 13.7% and 15.4% for the three months ending March 31, 2019 and 2018, respectively.

Note 6. Securities

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

March 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale				
Obligations of U.S.				
Government agencies	$ 98,911,462	$ —	$ 1,606,054	$ 97,305,408
Mortgage backed securities	314,839,147	157,919	7,760,156	307,236,910
State, County, Municipals	105,170,354	220,375	2,141,852	103,248,877
Total	$518,920,963	$378,294	$11,508,062	$507,791,195

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale				
Obligations of U.S.				
Government agencies	$ 99,365,930	$ —	$ 3,388,147	$ 95,977,783
Mortgage backed securities	259,742,501	4,921	12,373,269	247,374,153
State, County, Municipals	105,590,858	67,888	4,264,228	101,394,518
Total	$464,699,289	$ 72,809	$20,025,644	$444,746,454

At March 31, 2019 and December 31, 2018, securities with a carrying value of $358,290,412 and $357,231,440, respectively, were pledged to secure government and public deposits and securities sold under agreement to repurchase.

The amortized cost and estimated fair value of securities by contractual maturity at March 31, 2019 and December 31, 2018 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations.

	March 31, 2019		December 31, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available-for-sale				
Due in one year or less	$ 2,639,867	$ 2,642,681	$ 1,875,288	$ 1,877,665
Due after one year through five years	91,046,162	89,695,181	91,948,838	89,121,194
Due after five years through ten years	36,403,442	35,989,164	32,801,788	31,718,293
Due after ten years	73,992,345	72,227,259	78,330,873	74,655,149
Residential mortgage backed securities	245,120,416	239,721,466	187,776,954	179,235,806
Commercial mortgage backed securities	69,718,731	67,515,444	71,965,548	68,138,347
Total	$518,920,963	$507,791,195	$464,699,289	$444,746,454

The tables below show the Corporation's gross unrealized losses and fair value of available-for-sale investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at March 31, 2019 and December 31, 2018.

Table of Contents

A summary of unrealized loss information for securities available-for-sale, categorized by security type follows (in thousands):

March 31, 2019	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government agencies	$ —	$ —	$ 97,305,408	$ 1,606,054	$ 97,305,408	$ 1,606,054
Mortgage backed securities	40,619,235	231,534	233,209,022	7,528,622	273,828,257	7,760,156
State, County, Municipal	—	—	80,467,294	2,141,852	80,467,294	2,141,852
Total	$40,619,235	$231,534	$410,981,724	$11,276,528	$451,600,959	$11,508,062

December 31, 2018	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government agencies	$ —	$ —	$ 95,977,783	$ 3,388,147	$ 95,977,783	$ 3,388,147
Mortgage backed securities	12,257,636	179,281	234,928,705	12,193,988	247,186,341	12,373,269
State, County, Municipal	12,623,964	285,275	76,535,741	3,978,953	89,159,705	4,264,228
Total	$24,881,600	$464,556	$407,442,229	$19,561,088	$432,323,829	$20,025,644

The Corporation's unrealized losses on its obligations of United States government agencies, mortgage backed securities and state, county and municipal bonds are the result of an upward trend in interest rates since purchase, mainly in the mid-term sector. None of the unrealized losses disclosed in the previous table are related to credit deterioration. The Corporation does not intend to sell any securities in an unrealized loss position that it holds and it is not more likely than not that the Corporation will be required to sell any such security prior to the recovery of it amortized cost basis, which may be at maturity. Furthermore, even though a number of these securities have been in a continuous unrealized loss position for greater than twelve months, the Corporation is collecting principal and interest payments as scheduled. The Corporation has determined that none of the securities in this classification were other-than-temporarily impaired at March 31, 2019 nor at December 31, 2018.

Note 7. Loans

The composition of net loans (in thousands) at March 31, 2019 and December 31, 2018 was as follows:

	March 31, 2019	December 31, 2018
Real Estate:		
Land Development and Construction	$ 47,492	$ 41,134
Farmland	17,264	14,498
1-4 Family Mortgages	86,828	88,747
Commercial Real Estate	203,883	203,595
Total Real Estate Loans	355,467	347,974
Business Loans:		
Commercial and Industrial Loans	77,585	66,421
Farm Production and Other Farm Loans	829	907
Total Business Loans	78,414	67,328
Consumer Loans:		
Credit Cards	1,603	1,648
Other Consumer Loans	12,015	12,372
Total Consumer Loans	13,618	14,020
Total Gross Loans	447,499	429,322
Unearned Income	(30)	(45)
Allowance for Loan Losses	(3,560)	(3,372)
Loans, net	$ 443,909	$ 425,905

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

Period-end, non-accrual loans (in thousands), segregated by class, were as follows:

	March 31, 2019	December 31, 2018
Real Estate:		
Land Development and Construction	$ 113	$ —
Farmland	196	200
1-4 Family Mortgages	1,996	1,831
Commercial Real Estate	7,503	7,612
Total Real Estate Loans	9,808	9,643
Business Loans:		
Commercial and Industrial Loans	91	76
Farm Production and Other Farm Loans	31	31
Total Business Loans	122	107
Consumer Loans:		
Other Consumer Loans	88	89
Total Consumer Loans	88	89
Total Nonaccrual Loans	$ 10,018	$ 9,839

An aging analysis of past due loans (in thousands), segregated by class, as of March 31, 2019, was as follows:

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	$ 82	$ 54	$ 136	$ 47,356	$ 47,492	$ —
Farmland	438	15	453	16,811	17,264	—
1-4 Family Mortgages	1,945	334	2,279	84,549	86,828	—
Commercial Real Estate	773	3,047	3,820	200,063	203,883	10
Total Real Estate Loans	3,238	3,450	6,688	348,779	355,467	10
Business Loans:						
Commercial and Industrial Loans	1,758	19	1,777	75,808	77,585	—
Farm Production and Other Farm Loans	5	—	5	824	829	—
Total Business Loans	1,763	19	1,782	76,632	78,414	—
Consumer Loans:						
Credit Cards	31	10	41	1,562	1,603	10
Other Consumer Loans	161	17	178	11,837	12,015	—
Total Consumer Loans	192	27	219	13,399	13,618	10
Total Loans	$ 5,193	$ 3,496	$ 8,689	$438,810	$447,499	$ 20

An aging analysis of past due loans (in thousands), segregated by class, as of December 31, 2018 was as follows:

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

Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. In determining which loans to evaluate for impairment, management looks at all loans over $100,000 that are past due loans, bankruptcy filings and any situation that might lend itself to cause a borrower to be unable to repay the loan according to the original agreement terms. If a loan is determined to be impaired and the collateral is deemed to be insufficient to fully repay the loan, a specific reserve will be established. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

Table of Contents

Impaired loans (in thousands) as of March 31, 2019, segregated by class, were as follows:

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	$ 113	$ 59	$ 54	$ 113	$ 18	$ 56.50
Farmland	266	266	—	266	—	267.50
1-4 Family Mortgages	817	727	90	817	24	985
Commercial Real Estate	10,479	5,113	3,649	8,762	375	8,823
Total Real Estate Loans	11,675	6,165	3,793	9,958	417	10,132
Business Loans:						
Commercial and Industrial Loans	5	—	5	5	5	3
Total Business Loans	5	—	5	5	5	3
Total Loans	$ 11,680	$ 6,165	$ 3,798	$ 9,963	$ 422	$ 10,135

Impaired loans (in thousands) as of December 31, 2018, segregated by class, were as follows:

	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	$ —	$ —	$ —	$ —	$ —	$ —
Farmland	269	269	—	269	—	135
1-4 Family Mortgages	1,153	1,062	91	1,153	27	728
Commercial Real Estate	10,601	5,209	3,675	8,884	374	6,489
Total Real Estate Loans	12,023	6,540	3,766	10,306	401	7,352
Total Loans	$12,023	$ 6,540	$ 3,766	$ 10,306	$ 401	$ 7,352

The following table presents troubled debt restructurings (in thousands, except for number of loans), segregated by class:

March 31, 2019	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	3	$ 4,871	$ 2,748
Total	3	$ 4,871	$ 2,748

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

Changes in the Corporation's troubled debt restructurings (in thousands, except for number of loans) are set forth in the table below:

	Number of Loans	Recorded Investment
Totals at January 1, 2018	3	$ 3,047
Reductions due to:		
Principal paydowns		(265)
Totals at January 1, 2019	3	$ 2,782
Reductions due to:		
Principal paydowns		(34)
Total at March 31, 2019	3	$ 2,748

The allocated allowance for loan losses attributable to restructured loans was $174,274 at March 31, 2019 and December 31, 2018. The Corporation had no remaining availability under commitments to lend additional funds on these troubled debt restructurings as of March 31, 2019.

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

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

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

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

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

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

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

Grade 7. SUBSTANDARD ASSETS - Assets classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness based upon objective evidence. Assets classified as substandard are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. The possibility that liquidation would not be timely requires a substandard classification even if there is little likelihood of total loss. This classification does not mean that the loan will incur a total or partial loss. Substandard loans may or may not be impaired.

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

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

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

The following table details the amount of gross loans (in thousands), segregated by loan grade and class, as of March 31, 2019:

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	$ 45,746	$ 1,073	$ 673	$ —	$ —	$ 47,492
Farmland	15,942	346	976	—	—	17,264
1-4 Family Mortgages	77,791	1,902	7,120	—	15	86,828
Commercial Real Estate	168,873	21,879	13,131	—	—	203,883
Total Real Estate Loans	308,352	25,200	21,900	—	15	355,467
Business Loans:						
Commercial and Industrial Loans	75,626	225	1,734	—	—	77,585
Farm Production and Other Farm Loans	798	—	31	—	—	829
Total Business Loans	76,424	225	1,765	—	—	78,414
Consumer Loans:						
Credit Cards	1,562	—	41	—	—	1,603
Other Consumer Loans	11,830	62	72	51	—	12,015
Total Consumer Loans	13,392	62	113	51	—	13,618
Total Loans	$ 398,168	$ 25,487	$ 23,778	$ 51	$ 15	$ 447,499

The following table details the amount of gross loans (in thousands) segregated by loan grade and class, as of December 31, 2018:

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

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

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

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

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2019:

March 31, 2019	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2019	$ 2,844,681	$ 221,841	$ 305,173	$ 3,371,695
Provision for (reversal of) loan losses	(62,733)	99,457	158,755	195,479
Chargeoffs	—	12,178	24,940	37,118
Recoveries	11,600	4,340	13,900	29,840
Net chargeoffs (recoveries)	(11,600)	7,838	11,040	7,278
Ending Balance	$ 2,793,548	$ 313,460	$ 452,888	$ 3,559,896
Period end allowance allocated to:				
Loans individually evaluated for impairment	$ 417,033	$ 5,084	$ —	$ 422,117
Loans collectively evaluated for impairment	2,376,515	308,376	452,888	3,137,779
Ending Balance, March 31, 2019	$ 2,793,548	$ 313,460	$ 452,888	$ 3,559,896

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2018:

March 31, 2018	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2018	$ 2,151,715	$ 346,781	$ 520,732	$ 3,019,228
(Reversal of) provision for loan losses	(65,925)	(150,889)	(19,959)	(236,773)
Chargeoffs	83,045	15,347	30,845	129,237
Recoveries	45,114	861	26,248	72,223
Net chargeoffs (recoveries)	37,931	14,486	4,597	57,014
Ending Balance	$ 2,047,859	$ 181,406	$ 496,176	$ 2,725,441
Period end allowance allocated to:				
Loans individually evaluated for impairment	$ 459,359	$ —	$ —	$ 459,359
Loans collectively evaluated for impairment	1,588,500	181,406	496,176	2,266,082
Ending Balance, March 31, 2018	$ 2,047,859	$ 181,406	$ 496,176	$ 2,725,441

Table of Contents

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

March 31, 2019	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for specific impairment	$ 9,958	$ 5	$ —	$ 9,963
Loans collectively evaluated for general impairment	345,509	78,409	13,618	437,536
	$ 355,467	$ 78,414	$ 13,618	$ 447,499

December 31, 2018	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for specific impairment	$ 10,306	$ —	$ —	$ 10,306
Loans collectively evaluated for general impairment	337,668	67,328	14,020	419,016
	$ 347,974	$ 67,328	$ 14,020	$ 429,322

Note 8. Premises and Equipment

The Company lease certain premises and equipment under operating leases. At March 31, 2019, the Company had lease liabilities and ROU assets totaling $1,086 million related to these leases. Lease liabilities and ROU assets are reflected in other liabilities and other assets, respectively. For the three months ended March 31, 2019, the weighted average remaining lease term for operating leases was 1.6 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.3%.

Lease costs were as follows:

(in thousands)	**Three Months Ended March 31, 2019**
Operating lease cost	$ 96
Short-term lease cost	6
Variable lease cost	—
	$ 102

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

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

(in thousands)	Three Months Ended March 31, 2019
Lease payments due:	
Within one year	$ 362
After one year but within two years	362
After two years but within three years	320
After three year but within four years	76
After four years but within five years	25
After five years	—
Total undiscounted cash flows	1,145
Discount on cash flows	(59)
Total lease liability	$ 1,086

Note 9. Shareholders' Equity

The following summarizes the activity in the capital structure of the Company:

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2019	4,904,530	$ 980,906	$ 4,298,499	$(14,974,603)	$ 93,561,515	$ 83,866,317
Net income	—	—	—	—	1,226,771	1,226,771
Dividends paid ($0.24 per share)	—	—	—	—	(1,177,087)	(1,177,087)
Options exercised	—	—	—	—	—	—
Restricted stock granted	—	—	—	—	—	—
Stock compensation expense	—	—	41,344	—	—	41,344
Other comprehensive income, net	—	—	—	6,621,712	—	6,621,712
Balance, March 31, 2019	4,904,530	$ 980,906	$ 4,339,843	$ (8,352,891)	$ 93,611,199	$ 90,579,057

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2018	4,894,705	$ 978,941	$ 4,103,139	$ (8,225,419)	$ 91,594,379	$ 88,451,040
Net income	—	—	—	—	1,772,387	1,772,387
Dividends paid ($0.24 per share)	—	—	—	—	(1,174,729)	(1,174,729)
Options exercised	—	—	—	—	—	—
Restricted stock granted	—	—	—	—	—	—
Stock compensation expense	—	—	45,056	—	—	45,056
Other comprehensive income, net	—	—	—	(7,068,858)	—	(7,068,858)
Balance, March 31, 2018	4,894,705	$ 978,941	$ 4,148,195	$(15,294,277)	$ 92,192,037	$ 82,024,896

Note 10. Fair Value of Financial Instruments

The fair value topic of the ASC establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. This topic clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This topic also requires disclosure about how fair value was determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices in active markets for identical assets and liabilities included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active; or

Level 3 Unobservable inputs for an asset or liability, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2019:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government Agencies	$ —	$ 97,305,408	$ —	$ 97,305,408
Mortgage-backed securities	—	307,236,910	—	307,236,910
State, county and municipal obligations	—	103,248,877	—	103,248,877
Total	$ —	$ 507,791,195	$ —	$ 507,791,195

The following table presents assets and liabilities that were measured at fair value on a recurring basis as of December 31, 2018:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government Agencies	$ —	$ 95,977,783	$ —	$ 95,977,783
Mortgage-backed securities	—	247,374,153	—	247,374,153
State, county and municipal obligations	—	101,394,518	—	101,394,518
Total	$ —	$ 444,746,454	$ —	$ 444,746,454

The following table reports the activity in assets measured at fair value on a recurring basis using significant unobservable inputs:

	Fair Value Measurements Using: Significant Unobservable Inputs (Level 3) Structured Financial Product As of March 31,	
	2019	2018
Beginning Balance	$ —	$ 3,074,227
Principal payments received	—	—
Unrealized (loss) gains included in other comprehensive income	—	8,630
Ending Balance	$ —	$ 3,082,857

The Corporation recorded no gains or losses in earnings for the period ended March 31, 2019 or December 31, 2018 that were attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

Impaired Loans

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

Other real estate owned

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

For assets measured at fair value on a nonrecurring basis during 2019 that were still held on the Corporation's balance sheet at March 31, 2019, the following table provides the hierarchy level and the fair value of the related assets:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Impaired loans	$ —	$ —	$ 3,376,414	$ 3,376,414
Total	$ —	$ —	$ 3,376,414	$ 3,376,414

The following table presents information as of March 31, 2019 about significant unobservable inputs (Level 3) used in the valuation of assets and liabilities measured at fair value on a nonrecurring basis:

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Impaired loans	$ 3,376,414	Appraised value of collateral less estimated costs to sell	Estimated costs to sell	25%

For assets measured at fair value on a nonrecurring basis during 2018 that were still held on the Corporation's balance sheet at December 31, 2018, the following table provides the hierarchy level and the fair value of the related assets:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Impaired loans	$ —	$ —	$ 3,364,538	$ 3,364,538
Other real estate owned	—	—	188,609	188,609
Total	$ —	$ —	$ 3,553,147	$ 3,553,147

Impaired loans with a carrying value of $3,376,414 and $3,364,538 had an allocated allowance for loan losses of $422,117 and $401,347 at March 31, 2019 and December 31, 2018, respectively. The allocated allowance is based on the carrying value of the impaired loan and the fair value of the underlying collateral less estimated costs to sell.

After monitoring the carrying amounts for subsequent declines or impairments after foreclosure, management determined that a fair value adjustment to OREO in the amount of $-0- was necessary and recorded during the three-month period ended March 31, 2019 and the year ended December 31, 2018.

The financial instruments topic of the ASC requires disclosure of financial instruments' fair values, as well as the methodology and significant assumptions used in estimating fair values. 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. The financial instruments topic of the ASC excludes certain financial instruments from its disclosure requirements.

The following represents the carrying value and estimated fair value of the Corporation's financial instruments at March 31, 2019:

March 31, 2019	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets					
Cash and due from banks	$ 12,462,550	$ 12,462,550	$ —	$ —	$ 12,462,550
Interest bearing deposits with banks	27,122,108	27,122,108	—	—	27,122,108
Securities available-for-sale	507,791,195	—	507,791,195	—	507,791,195
Net loans	443,909,475	—	—	439,516,508	439,516,508
Financial liabilities					
Deposits	$ 840,159,983	$ 617,922,299	$ 223,144,296	$ —	$ 841,066,595
Securities Sold under Agreement to Repurchase	115,450,591	115,450,591	—	—	115,450,591

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

December 31, 2018	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets					
Cash and due from banks	$ 12,592,130	$ 12,592,130	$ —	$ —	$ 12,592,130
Interest bearing deposits with banks	8,079,742	8,079,742	—	—	8,079,742
Securities available-for-sale	444,746,454	—	444,746,454	—	444,746,454
Net loans	425,905,093	—	—	420,992,074	420,992,074
Financial liabilities					
Deposits	$ 756,221,510	$ 544,985,869	$ 210,477,092	$ —	$ 755,462,961
Securities Sold under Agreement to Repurchase	107,965,505	107,965,505	—	—	107,965,505

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q (the "Quarterly Report") contains statements that constitute forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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 Quarterly 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 Quarterly Report. The Corporation 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 Citizens Holding Company (the "Company") and the Company's wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), include, but are not limited to, the following:

- expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions;
- adverse changes in asset quality and loan demand, and the potential insufficiency of the allowance for loan losses;
- the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Company operates;
- extensive regulation, changes in the legislative and regulatory environment that negatively impact the Company and the Bank through increased operating expenses and the potential for regulatory enforcement actions, claims, and litigation;
- increased competition from other financial institutions and the risk of failure to achieve our business strategies;
- events affecting our business operations, including the effectiveness of our risk management framework, our reliance on third party vendors, the risk of security breaches and potential fraud, and the impact of technological advances;
- our ability to maintain sufficient capital and to raise additional capital when needed;
- our ability to maintain adequate liquidity to conduct business and meet our obligations;
- events that adversely affect our reputation, and the resulting potential adverse impact on our business operations;
- expectations about overall economic strength and the performance of the economy in the Company's market area;
- risks arising from owning our common stock, such as volatility and trading volume, our ability to pay dividends, the regulatory limitations on stock ownership, and the provisions in our governing documents that may make it more difficult for another party to obtain control of us; and
- other risks detailed from time-to-time in the Company's filings with the Securities and Exchange Commission.

Except as required by law, the Corporation does not undertake any obligation to update or revise any forward-looking statements subsequent to the date of this Quarterly Report, or if earlier, the date on which such statements were made.

Management's discussion and analysis is intended to provide greater insight into the results of operations and the financial condition of the Corporation. The following discussion should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this Quarterly Report.

OVERVIEW

The Company is a one-bank holding company incorporated under the laws of the State of Mississippi on February 16, 1982. The Company is the sole shareholder of the Bank. The Company does not have any subsidiaries other than the Bank.

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 March 31, 2019, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of $1,057.392 million and total deposits of $840.160 million.

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.

LIQUIDITY

The Corporation has an asset and liability management program that assists management in maintaining net interest margins during times of both rising and falling interest rates and in maintaining sufficient liquidity. A measurement of liquidity is the ratio of net deposits and short-term liabilities divided by the sum of net cash, short-term investments and marketable assets. This measurement for liquidity of the Corporation at March 31, 2019, was 31.66% and at December 31, 2018, was 21.34%. The increase was due to an increase in short-term marketable assets at March 31, 2019. Management believes it maintains adequate liquidity for the Corporation's current needs.

The Corporation's primary source of liquidity is customer deposits, which were $840,159,983 at March 31, 2019, and $756,221,510 at December 31, 2018. Other sources of liquidity include investment securities, the Corporation's line of credit with the Federal Home Loan Bank ("FHLB") and federal funds lines with correspondent banks. The Corporation had $507,791,195 invested in available-for-sale investment securities at March 31, 2019, and $444,746,454 at December 31, 2018. This increase was due to purchases in excess of maturities, paydowns, sales and calls and an increase in the market value of the Corporation's investment securities portfolio.

The Corporation also had $27,122,108 in interest bearing deposits at other banks at March 31, 2019 and $8,079,742 at December 31, 2018. The Corporation had secured and unsecured federal funds lines with correspondent banks in the amount of $45,000,000 at both March 31, 2019 and December 31, 2018. In addition, the Corporation has the ability to draw on its line of credit with the FHLB. At March 31, 2019, the Corporation had unused and available $172,312,015 of its line of credit with the FHLB and at December 31, 2018, the Corporation had unused and available $171,252,131 of its line of credit with the FHLB. The increase in the amount available under the Corporation's line of credit with the FHLB from the end of 2018 to March 31, 2019, was the result of an increase in the amount of loans eligible for the collateral pool securing the Corporation's line of credit with the FHLB. The Corporation had federal funds purchased of $-0- as of March 31, 2019 and $-0- as of December 31, 2018. The Corporation may purchase federal funds from correspondent banks on a temporary basis to meet short term funding needs.

When the Corporation has more funds than it needs for its reserve requirements or short-term liquidity needs, the Corporation increases its investment portfolio, increases the balances in interest bearing due from bank accounts or sells federal funds. It is management's policy to maintain an adequate portion of its portfolio of assets and liabilities on a short-term basis to insure rate flexibility and to meet loan funding and liquidity needs. When deposits decline or do not grow sufficiently to fund loan demand, management will seek funding either through federal funds purchased or advances from the FHLB.

CAPITAL RESOURCES

Total shareholders' equity was $90,579,057 at March 31, 2019, as compared to $83,866,317 at December 31, 2018. The increase in shareholders' equity was the result of a decrease in the accumulated other comprehensive loss brought about by the investment securities market value adjustment coupled with the increase in earnings in excess of dividends paid. The market value adjustment, which was an increase due to general market conditions, specifically the decrease in medium term interest rates, caused an increase in the market price of the Corporation's investment portfolio.

The Corporation paid aggregate cash dividends in the amount of $1,177,087, or $0.24 per share, during the three-month period ended March 31, 2019 compared to $1,174,729, or $0.24 per share, for the same period in 2018.

Quantitative measures established by federal regulations to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios of Total and Tier 1 capital (primarily common stock and retained earnings, less goodwill) to risk weighted assets, and of Tier 1 capital to average assets. Management believes that as of March 31, 2019, the Corporation meets all capital adequacy requirements to which it is subject and according to these requirements the Corporation is considered to be well capitalized.

	Actual		Minimum Capital Requirement to be Well Capitalized		Minimum Capital Requirement to be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2019						
Citizens Holding Company						
Tier 1 leverage ratio	$95,782	9.55%	$50,167	5.00%	$40,133	4.00%
Common Equity tier 1 capital ratio	95,782	9.55%	65,217	6.50%	45,150	4.50%
Tier 1 risk-based capital ratio	95,782	16.54%	46,320	8.00%	34,740	6.00%
Total risk-based capital ratio	99,342	17.16%	57,900	10.00%	46,320	8.00%
December 31, 2018						
Citizens Holding Company						
Tier 1 leverage ratio	$95,691	9.93%	$48,191	5.00%	$38,553	4.00%
Common Equity tier 1 capital ratio	95,691	9.93%	62,648	6.50%	43,372	4.50%
Tier 1 risk-based capital ratio	95,691	17.40%	43,986	8.00%	32,990	6.00%
Total risk-based capital ratio	99,063	18.02%	54,983	10.00%	43,986	8.00%

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

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

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

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

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

Management believes that, as of March 31, 2019, the Company and the Bank meet all capital adequacy requirements under Basel III. The changes to the calculation of risk-weighted assets required by Basel III did not have a material impact on the Corporation's capital ratios as presented.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, certain items in the consolidated statements of income of the Corporation and the related changes between those periods:

	For the Three Months Ended March 31, 2019	2018
Interest Income, including fees	$8,383,425	$7,599,391
Interest Expense	2,173,699	794,640
Net Interest Income	6,209,726	6,804,751
Provision for (reversal of) loan losses	195,479	(236,773)
Net Interest Income after Provision for (reversal of) loan losses	6,014,247	7,041,524
Other Income	2,046,911	2,100,430
Other Expense	6,639,217	7,047,682
Income Before Provision For Income Taxes	1,421,941	2,094,272
Provision for Income Taxes	195,170	321,885
Net Income	$1,226,771	$1,772,387
Net Income Per share - Basic	$ 0.25	$ 0.36
Net Income Per Share-Diluted	$ 0.25	$ 0.36

See Note 3 to the Corporation's Consolidated Financial Statements for an explanation regarding the Corporation's calculation of Net Income Per Share - basic and - diluted.

Annualized return on average equity ("ROE") was 5.70% for the three months ended March 31, 2019, and 8.03% for the corresponding period in 2018. The decrease in ROE for the three months ended March 31, 2019 was caused by the increase in equity balances and a decrease in net income compared to the same period in 2018.

Book value per share increased to $18.47 at March 31, 2019, compared to $17.09 at December 31, 2018. The increase in book value per share reflects earnings in excess of dividends coupled with a decrease in other comprehensive loss due to the increase in fair value of the Corporation's investment securities. Average assets for the three months ended March 31, 2019 were $1,006,484,037 compared to $971,893,427 for the year ended December 31, 2018. This increase was due mainly to an increase in loans, available-for-sale securities and interest bearing due from bank accounts.

NET INTEREST INCOME / NET INTEREST MARGIN

One component of the Corporation's earnings is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid for deposits and borrowed funds. The net interest margin is net interest income expressed as a percentage of average earning assets.

The annualized net interest margin was 2.72% for the quarter ended March 31, 2019 compared to 3.03% for the corresponding period of 2018. The decrease in net interest margin for the three months ended March 31, 2019, when compared to the same period in 2018, was the result of the increase in rates paid on deposits in excess of the increase in yields on earning assets, as detailed below. Earning assets averaged $929,676,890 for the three months ended March 31, 2019. This represents an increase of $20,603,983, or 2.3%, over average earning assets of $909,072,907 for the three months ended March 31, 2018.

Interest bearing deposits averaged $633,961,993 for the three months ended March 31, 2019. This represents a increase of $31,084,110, or 5.2%, from the average of interest bearing deposits of $602,877,883 for the three months ended March 31, 2018. This was due, in large part, to a increase in interest-bearing NOW accounts and certificates of deposit partially offset by an decrease in savings and money market accounts.

Other borrowed funds averaged $106,789,440 for the three months ended March 31, 2019. This represents a decrease of $13,252,844, or 11.0%, over the other borrowed funds of $120,042,284 for the three months ended March 31, 2018. This decrease in other borrowed funds was due to a decrease in federal funds purchased and FHLB advances partially offset by an increase in securities sold under agreements to repurchase for the three months ended March 31, 2019, when compared to the three months ended March 31, 2018.

Net interest income was $6,209,726 for the three months ended March 31, 2019, a decrease of $595,025 from $6,804,751 for the three months ended March 31, 2018, primarily due to an increase in the rates paid on deposits from the same period in 2018. The changes in volume in earning assets, deposits and borrowed funds are discussed above. As for changes in interest rates in the three months ended March 31, 2019, the yields on earning assets increased and the rates paid on deposits increased from the same period in 2018. The yield on all interest-bearing assets increased 23 basis points to 3.67% in the three months ended March 31, 2019 from 3.44% for the same period in 2018. At the same time, the rate paid on all interest-bearing liabilities for the three months ended March 31, 2019 increased 75 basis points to 1.19% from 0.44% in the same period in 2018. As longer term interest bearing assets and liabilities mature and reprice, management believes that the yields on interest bearing assets and rates on interest bearing liabilities will both increase.

The following table shows the interest and fees and corresponding yields for loans only.

	For the Three Months Ended March 31,	
	2019	2018
Interest and Fees	$ 5,449,535	$ 4,716,419
Average Gross Loans	435,069,864	407,008,135
Annualized Yield	5.01%	4.64%

CREDIT LOSS EXPERIENCE

As a natural corollary to the Corporation’s lending activities, some loan losses are to be expected. The risk of loss varies with the type of loan being made and the overall creditworthiness of the borrower over the term of the loan. The degree of perceived risk is taken into account in establishing the structure of, and interest rates and security for, specific loans and for various types of loans. The Corporation attempts to minimize its credit risk exposure by use of thorough loan application and approval procedures.

The Corporation maintains a program of systematic review of its existing loans. Loans are graded for their overall quality. Those loans, which management determines require further monitoring and supervision, are segregated and reviewed on a regular basis. Significant problem loans are reviewed monthly by the Corporation’s management and Board of Directors.

The Corporation charges off that portion of any loan that the Corporation’s management and Board of Directors has determined to be a loss. A loan is generally considered by management to represent a loss, in whole or in part, when exposure beyond the collateral value is apparent, servicing of the unsecured portion has been discontinued or collection is not anticipated based on the borrower’s financial condition. The general economic conditions in the borrower’s industry influence this determination. The principal amount of any loan that is declared a loss is charged against the Corporation’s allowance for loan losses.

The Corporation’s allowance for loan losses is designed to provide for loan losses that can be reasonably anticipated. The allowance for loan losses is established through charges to operating expenses in the form of provisions for loan losses. Actual loan losses or recoveries are charged or credited to the allowance for loan losses. The Board of Directors determines the amount of the allowance. Among the factors considered in determining the allowance for loan losses are the current financial condition of the Corporation’s borrowers and the value of security, if any, for their loans. Estimates of future economic conditions and their impact on various industries and individual borrowers are also taken into consideration, as are the Corporation’s historical loan loss experience and reports of banking regulatory authorities. As these estimates, factors and evaluations are primarily judgmental, no assurance can be given as to whether the Corporation will sustain loan losses in excess or below its allowance or that subsequent evaluation of the loan portfolio may not require material increases or decreases in such allowance.

The following table summarizes the Corporation's allowance for loan losses for the dates indicated:

	Quarter Ended March 31, 2019	Year Ended December 31, 2018	Amount of Increase (Decrease)	Percent of Increase (Decrease)
BALANCES:				
Gross Loans	$447,499,786	$429,322,113	$18,177,673	4.23%
Allowance for Loan Losses	3,559,896	3,371,695	188,201	5.58%
Nonaccrual Loans	10,017,647	9,838,870	178,777	1.82%
Ratios:				
Allowance for loan losses to gross loans	0.80%	0.79%		
Net loans charged off (recovered) to allowance for loan losses	0.20%	-0.55%		

The provision for loan losses for the three months ended March 31, 2019 was $195,479, an increase of $432,252 from the reversal of provision for loan losses of $236,773 for the same period in 2018. The change in the Corporation's loan loss provisions for the three months ended March 31, 2019 is a result of management's assessment of inherent loss in the loan portfolio, including the impact caused by current local, national and international economic conditions coupled with an increase in loan demand. The Corporation's model used to calculate the provision is based on the percentage of historical charge-offs applied to the current loan balances by loan segment and specific reserves applied to certain impaired loans. Nonaccrual loans increased during this period due to new loans being added to nonaccrual status in excess of the amount of payments received and loans charged off.

For the three months ended March 31, 2019, net loan losses charged to the allowance for loan losses totaled $7,278, a decrease of $49,736 from the $57,014 charged off in the same period in 2018. The decrease was primarily due to a significant charge-off during the first quarter of 2018.

Management reviews quarterly with the Corporation's Board of Directors the adequacy of the allowance for loan losses. The loan loss provision is adjusted when specific items reflect a need for such an adjustment. Management believes that there were no material loan losses during the three months ended March 31, 2019 that have not been charged off. Management also believes that the Corporation's allowance will be adequate to absorb probable losses inherent in the Corporation's loan portfolio. However, it remains possible that additional provisions for loan loss may be required.

OTHER INCOME

Other income includes service charges on deposit accounts, wire transfer fees, safe deposit box rentals and other revenue not derived from interest on earning assets. Other income for the three months ended March 31, 2019 was $2,046,911, a decrease of $53,519, or 2.5%, from $2,100,430 in the same period in 2018. Service charges on deposit accounts were $1,096,692 in the three months ended March 31, 2019, compared to $1,143,593 for the same period in 2018. Other service charges and fees decreased by $15,176, or 2.3%, to $683,640 in the three months ended March 31, 2019, compared to $668,464 for the same period in 2018. Other operating income not derived from service charges or fees decreased $21,795, or 7.6% to $266,578 in the three months ended March 31, 2019, compared to $288,373 for the same period in 2018. This decrease was due mainly to a decrease in income from security sales and a decrease in mortgage loan origination income from long-term mortgage loans originated for sale to the secondary market partially offset by an increase in other income.

The following is a detail of the other major income classifications that were included in other operation income on the income statement:

Other operating income	For the Three Months Ended March 31, 2019	2018
BOLI Income	$126,000	$126,000
Mortgage Loan Origination Income	48,028	72,523
Income from security sales, net	—	8,021
Other Income	92,551	81,829
Total Other Income	$266,579	$288,373

OTHER EXPENSES

Other expenses include salaries and employee benefits, occupancy and equipment, and other operating expenses. Aggregate non-interest expenses for the three months ended March 31, 2019 and 2018 were $6,639,217 and $7,047,682, respectively, a decrease of $408,465 or 5.8%. Salaries and benefits decreased to $3,546,669 for the three months ended March 31, 2019, from $3,667,857 for the same period in 2018. Occupancy expense decreased by $102,952, or 6.7%, to $1,422,427 for the three months ended March 31, 2019, compared to $1,525,379 for the same period of 2018. Other operating expenses decreased by $184,325, or 10.0%, to $1,670,121 for the three months ended March 31, 2019, compared to $1,854,446 for the same period of 2018.

The following is a detail of the major expense classifications that make up the other operating expense line item in the income statement:

Other Operating Expense	For the Three Months Ended March 31, 2019	2018
Advertising	$ 178,655	$ 156,046
Office Supplies	217,247	243,076
Legal and Audit Fees	133,288	211,854
Telephone expense	112,058	124,833
Postage and Freight	149,122	136,917
Loan Collection Expense	8,036	13,702
Other Losses	6,777	167,274
Regulatory and related expense	84,917	95,047
Debit Card/ATM expense	120,885	109,001
Travel and Convention	36,780	49,348
Other expenses	622,356	547,348
Total Other Expense	$1,670,121	$1,854,446

The Corporation's efficiency ratio for the three months ended March 31, 2019 was 76.34%, compared to 74.47% for the same period in 2018. The efficiency ratio is the ratio of non-interest expenses divided by the sum of net interest income (on a fully tax equivalent basis) and non-interest income.

BALANCE SHEET ANALYSIS

	March 31, 2019	December 31, 2018	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Cash and Due From Banks	$ 12,462,550	$ 12,592,130	$ (129,580)	-1.03%
Interest Bearing deposits with Other Banks	27,122,108	8,079,742	19,042,366	235.68%
Investment Securities	507,791,195	444,746,454	63,044,741	14.18%
Loans, net	443,909,475	425,905,093	18,004,382	4.23%
Premises and Equipment	19,556,205	19,717,305	(161,100)	-0.82%
Total Assets	1,057,392,476	958,630,077	98,762,399	10.30%
Total Deposits	840,159,983	756,221,510	83,938,473	11.10%
Total Shareholders' Equity	90,579,057	83,866,317	6,712,740	8.00%

CASH AND CASH EQUIVALENTS

Cash and due from banks, which consist of cash, balances at correspondent banks and items in process of collection, balance at March 31, 2019 was $12,462,550, which was a decrease of $129,580 from the balance of $12,592,130 at December 31, 2018. The decrease was due to a decrease in the balances at correspondent banks due to a decrease in the amount of checks drawn on other banks in the normal process of clearing funds between these banks.

INVESTMENT SECURITIES

The Corporation's investment securities portfolio primarily consists of United States agency debentures, mortgage-backed securities and obligations of states, counties and municipalities. The Corporation's investments securities portfolio at March 31, 2019 increased by $63,044,741, or 14.2%, to $507,791,195 from $444,746,454 at December 31, 2018. This increase was due to purchases and increases in the market value of the Corporation's investment securities portfolio in excess of maturities, paydowns, sales and calls.

LOANS

The Corporation's loan balance increased by $18,004,382, or 4.2%, during the three months ended March 31, 2019, to $443,909,475 from $425,905,093 at December 31, 2018. Loan demand, especially in land development and construction, commercial and industrial, and commercial real estate categories, strengthened during the three months ended March 31, 2019 but competition for available loans continued to be strong during that period. No material changes were made to the loan products offered by the Corporation during this period.

PREMISES AND EQUIPMENT

During the three months ended March 31, 2019, the Corporation's premises and equipment decreased by $161,100, or 0.8%, to $19,556,205 from $19,717,305 at December 31, 2018. The decrease was due to depreciation expense exceeding the amount of property and equipment purchased during the period.

DEPOSITS

The following table shows the balance and percentage change in the various deposits:

	March 31, 2019	December 31, 2018	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Noninterest-Bearing Deposits	$171,555,937	$170,029,729	$ 1,526,208	0.90%
Interest-Bearing Deposits	369,049,299	298,220,430	70,828,869	23.75%
Savings Deposits	77,317,063	76,735,710	581,353	0.76%
Certificates of Deposit	222,237,684	211,235,641	11,002,043	5.21%
Total deposits	$840,159,983	$756,221,510	$83,938,473	11.10%

Non-interest-bearing, interest-bearing, savings and certificates of deposits increased during the three months ended March 31, 2019. Management continually monitors the interest rates on loan and deposit products to ensure that the Corporation is in line with the rates dictated by the market and our asset and liability management objectives. These rate adjustments impact deposit balances.

OFF-BALANCE SHEET ARRANGEMENTS

Please refer to Note 2 to the consolidated financial statements included in this Quarterly Report for a discussion of the nature and extent of the Corporation's off-balance sheet arrangements, which consist solely of commitments to fund loans and letters of credit.

CONTRACTUAL OBLIGATIONS

There have been no material changes outside of the ordinary course of the Corporation's business to the contractual obligations set forth in Note 12 to the Corporation's financial statements contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The following discussion of operations outlines specific risks that could affect the Corporation's ability to compete, change the Corporation's risk profile or eventually impact the Corporation's financial condition or results. The risks the Corporation faces generally are similar to those experienced, to varying degrees, by all financial services companies.

The Corporation's strategies and its management's ability to react to changing competitive and economic environments have historically enabled the Corporation to compete effectively and manage risks to acceptable levels. The Corporation has outlined potential risks below that it presently believes could be important; however, other risks may prove to be important in the future. New risks may emerge at any time and the Corporation cannot predict with certainty all potential developments that could affect the Corporation's financial condition or results of operation. The following discussion highlights potential risks, which could intensify over time or shift dynamically in a way that might change the Corporation's risk profile.

Competition Risks

The market in which the Corporation competes is saturated with community banks seeking to provide a service-oriented banking experience to individuals and businesses compared with what the Corporation believes is the more rigid and less friendly environment found in larger banks. This requires the Corporation to offer most, if not all, of the products and conveniences that are offered by the larger banks, but with a service differentiation. In doing so, it is imperative that the Corporation identify the lines of business that the Corporation can excel in, prudently utilize the Corporation's available capital to acquire the people and platforms required thereof, and execute on these strategies.

Credit Risks

Like all lenders, the Corporation faces the risk that the Corporation's customers may not repay their loans and that the realizable value of collateral may be insufficient to avoid a loss of principal. In the Corporation's business, some level of credit loss is unavoidable and overall levels of credit loss can vary over time. The Corporation's ability to manage credit risk depends primarily upon the Corporation's ability to assess the creditworthiness of customers and the value of collateral, including real estate. The Corporation controls credit risk by diversifying the Corporation's loan portfolio and managing its composition, and by recording and managing an allowance for expected loan losses in accordance with applicable accounting rules. At the end of March 31, 2019, the Corporation had approximately $3.6 million of available reserves to cover such losses. The models and approaches the Corporation uses to originate and manage loans are regularly reviewed, if necessary or advisable, updated to consider changes in the competitive environment, in real estate prices and other collateral values, and in the economy, among other things, based on the Corporation's experience originating loans and servicing loan portfolios.

Financing, Funding and Liquidity Risks

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

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

Interest Rate and Yield Curve Risks

A significant portion of the Corporation's business involves borrowing and lending money. Accordingly, changes in interest rates directly impact the Corporation's revenues and expenses, and potentially could compress the Corporation's net interest margin. The Corporation actively manages its balance sheet to control the risks of a reduction in net interest margin brought about by ordinary fluctuations in rates.

Like all financial services companies, the Corporation faces the risk of abnormalities in the yield curve. The yield curve shows the interest rates applicable to short and long term debt. The curve is steep when short-term rates are much lower than long-term rates, it is flat when short-term rates are equal, or nearly equal, to long-term rates, and it is inverted when short-term rates exceed long-term rates. A flat or inverted yield curve tends to decrease net interest margin, as funding costs increase relative to the yield on assets. Currently, the yield curve is flat.

Regulatory and Legal Risks

The Corporation operates in a heavily regulated industry and therefore is subject to many banking, deposit, and consumer lending laws as well as the rules and regulations promulgated by the FDIC, FRB, Securities and Exchange Commission and the NASDAQ stock market. Failure to comply with applicable regulations could result in financial or operational penalties. In addition, efforts to comply with applicable regulations may increase the Corporation's costs and/or limit the Corporation's ability to pursue certain business opportunities. Federal and state regulations significantly limit the types of activities in which the Corporation, as a financial institution, may engage. In addition, the Corporation is subject to a wide array of other regulations that govern other aspects of how the Corporation conducts business, such as in the areas of employment and intellectual property. Federal and state legislative and regulatory authorities occasionally consider changing these regulations or adopting new ones. Such actions could limit the amount of interest or fees the Corporation can charge, could restrict the Corporation's ability to collect loans or realize on collateral or could materially affect us in other ways. Additional federal and state consumer protection regulations could also expand the privacy protections afforded to customers of financial institutions, restricting the Corporation's ability to share or receive customer information and increasing the Corporation's costs. In addition, changes in accounting rules can significantly affect how the Corporation records and reports assets, liabilities, revenues, expenses and earnings.

The Corporation also faces litigation risks from customers (individually or in class actions) and from federal or state regulators. Litigation is an unavoidable part of doing business, and the Corporation manages those risks through internal controls, personnel training, insurance, litigation management, the Corporation's compliance and ethics processes and other means. However, the commencement, outcome and magnitude of litigation cannot be predicted or controlled with any certainty.

Accounting Estimate Risks

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

Expense Control

Expenses and other costs directly affect the Corporation's earnings. The Corporation's ability to successfully manage expenses is important to its long-term profitability. Many factors can influence the amount of the Corporation's expenses, as well as how quickly they grow. As the Corporation's businesses change or expand, additional expenses can arise from asset purchases, structural reorganization, evolving business strategies, and changing regulations, among other things. The Corporation manages expense growth and risk through a variety of means, including actual versus budget management, imposition of expense authorization, and procurement coordination and processes.

ITEM 4. CONTROLS AND PROCEDURES.

The management of the Corporation, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, including ensuring that such information is accumulated and communicated to the Corporation’s management as appropriate to allow timely decision regarding required disclosure. Based on such evaluation, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures were effective as of March 31, 2019 (the end of the period covered by this Quarterly Report).

There were no changes to the Corporation’s internal control over financial reporting that occurred in the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Corporation is a party to lawsuits and other claims that arise in the ordinary course of business, all of which are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provisions are made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not likely have a material impact on the Corporation's consolidated financial condition or results of operations.

ITEM 1A. RISK FACTORS.

The Corporation's business, future financial condition and results of operations are subject to a number of factors, risks and uncertainties, which are disclosed in Item 1A, "Risk Factors," in Part I of our Annual Report on Form 10-K for the year ended December 31, 2018, which the Corporation filed with the Securities and Exchange Commission on March 15, 2019. Additional information regarding some of those risks and uncertainties is contained in the notes to the condensed consolidated financial statements appearing in Part I, Item 1 of this Quarterly Report, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in Part I, Item 2 of this Quarterly Report and in "Quantitative and Qualitative Disclosures About Market Risk" appearing in Part I, Item 3 of this Quarterly Report. The risks and uncertainties disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2018, the Corporation's quarterly reports on Form 10-Q and other reports filed with the SEC are not necessarily all of the risks and uncertainties that may affect the Corporation's business, financial condition and results of operations in the future.

There have been no material changes to the risk factors as disclosed in the Corporation's Annual Report on Form 10-K for the Corporation's year ended December 31, 2018.

ITEM 6. EXHIBITS.

Exhibits

31(a)	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31(b)	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32(a)	Certification of the Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32(b)	Certification of the Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101	Financial Statements submitted in XBRL format.

SIGNATURES

Pursuant to the requirements 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

BY: /s/ Greg L. McKee
Greg L. McKee
President and Chief Executive Officer
(Principal Executive Officer)

BY: /s/ Robert T. Smith
Robert T. Smith
Treasurer and Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)

DATE: May 10, 2019

EXHIBIT 31(a)

Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a)/15d-14(a)

I, Greg L. McKee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citizens Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: May 10, 2019

/s/ Greg L. McKee

Greg L. McKee
President and Chief Executive Officer

EXHIBIT 31(b)

Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a)/15d-14(a)

I, Robert T. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Citizens Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: May 10, 2019

/s/ Robert T. Smith

Robert T. Smith
Treasurer and Chief Financial Officer

EXHIBIT 32(a)

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. § 1350

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, of Citizens Holding Company (the “Company”), as filed with the Securities Exchange Commission on the date hereof (the “Report”), I, Greg L. McKee, certify, pursuant to 18 U.S.C. § 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 operations of the Company.

Date: May 10, 2019

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

EXHIBIT 32(b)

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. § 1350

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, of Citizens Holding Company (the “Company”), as filed with the Securities Exchange Commission on the date hereof (the “Report”), I, Robert T. Smith, certify, pursuant to 18 U.S.C. § 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 operations of the Company.

Date: May 10, 2019

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