

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2007

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: 000-25221

CITIZENS HOLDING COMPANY

(Exact Name of Registrant as Specified in Its Charter)

MISSISSIPPI
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

39350
(Zip Code)

Registrant's Telephone Number, Including Area Code: 601-656-4692

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

Title of Each Class Common Stock, \$.20 par value	Name of Each Exchange on Which Registered The NASDAQ Global Market
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Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

As of June 30, 2007, the aggregate market value of the registrant's common stock, \$.20 par value, held by non-affiliates of the registrant was \$93,552,732 based on the closing sale price as reported on the NASDAQ Global Market for such date (the exchange on which the registrant's common stock was listed on June 30, 2007).

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

Class	Outstanding at March 7, 2008
Common stock, \$.20 par value	4,866,342 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2007 are incorporated by reference into Part II of this Annual Report on Form 10-K.

Portions of Citizens Holding Company's definitive proxy statement with respect to its 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

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

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

The Company does not undertake any obligation to update or revise any forward-looking statements subsequent to the date on which they are made. Please also refer to Item 1A, "Risk Factors," for a detailed discussion of the risks related to the Company and the Bank in particular and the banking industry generally.

Except as otherwise indicated herein, the information presented in this Annual Report on Form 10-K is as of March 7, 2008.

ITEM 1. BUSINESS

BACKGROUND

The Company is a one-bank holding company incorporated under the laws of Mississippi on February 16, 1982, at the direction of the Board of Directors of the Bank in order to facilitate the Bank's adoption of a one-bank holding company structure. The Company held 97.86% of the outstanding shares of the Bank on December 31, 2006. On December 19, 2006, the shareholders of the Bank approved a one-for-one thousand (1 for 1,000) reverse stock split. Holders of fractional shares of Bank stock after the reverse stock split received cash for such fractional shares. As a result of the reverse stock split, which was effective on January 2, 2007, the Company became the sole shareholder of 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 December 31, 2007, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of \$680,720,600 and total deposits of \$478,083,238. For more information regarding the assets, revenue and profits of the Company, refer to the Consolidated Financial Statements of the Company contained in Item 8, "Financial Statements and Supplementary Data."

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

OPERATIONS

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

Revenues from the Company's lending activities constitute the largest component of the Company's operating revenues. Revenue from loan interest and fees made up 63.2% of gross revenues in 2007, 67.8% in 2006 and 68.2% in 2005. Such lending activities include commercial, real estate, installment (direct and indirect) and credit card loans. The Company's primary lending area is East Central Mississippi, specifically Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Oktibbeha, Winston and Kemper counties and contiguous counties. On a very limited basis, the Company extends out-of-area credit only to borrowers who are considered to be low risk. The Company is not dependent upon any single customer or small group of customers, and it has no foreign operations.

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

The Company has historically made, and intends to continue to make, most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction and commercial real estate loans. Historically, approximately 73.6% of the Company's loan portfolio has been attributed to real estate lending. Another 11.2% of the Company's loan portfolio is comprised of commercial, industrial and agricultural production loans. Consumer loans make up the remaining 15.2% of the total loan portfolio.

The Company's loan personnel have the authority to extend credit under guidelines established and approved by the Company's Board of Directors. Any aggregate credit that exceeds the authority of the loan officer is forwarded to the Board's loan committee for approval. The loan committee is composed of various Company directors, including the Chairman of the Board. All aggregate credits that exceed the loan committee's lending authority are presented to the full Board of Directors for ultimate approval or denial. The loan committee not only acts as an approval body to ensure consistent application of the Company's loan policies, but also provides valuable insight through the communication and pooling of knowledge, judgment and experience of its members.

All loans in the Company's portfolio are subject to risk based on the state of both the local and national economy. However, because the Company's local economy in the past few years has been strong, with unemployment at historic lows, and is projected to remain strong in the near future, management believes that general risk levels are low.

In addition to lending services, the Company provides limited trust services. The Company serves as custodian of cemetery upkeep funds and insurance trusts. The Company also offers discount brokerage services through a networking agreement with First Tennessee Bank.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

Greg L. McKee, 46, has been employed by the Bank since 1984. He was named President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank in January 2003. He has served as President of the Bank since January 2002 and served as Chief Operating Officer of the Bank from January 2002 until December 31, 2002. He has also been a member of the Board of Directors of both the Company and the Bank since 2001. Mr. McKee served as Executive Vice-President of the Bank from 2001 to 2002, Senior Vice-President of the Bank from 2000 to 2001, Vice-President of the Bank from 1992 to 2000, Assistant Vice-President of the Bank from 1989 to 1992, and Assistant Cashier of the Bank from 1984 to 1989.

Robert T. Smith, 56, has been employed by the Bank since 1986. He has served as Senior Vice-President and Chief Financial Officer of the Bank since January 2001. Prior to January 2001, Mr. Smith held the title of Vice-President and Controller of the Bank from 1987 until 2001 and Assistant Vice-President of the Bank from 1986 to 1987. In addition to his position with the Bank, Mr. Smith has served as Treasurer of the Company since February 1996 and Treasurer and Chief Financial Officer since January 2001.

EMPLOYEES

The Company has no employees other than three Bank officers who provide services to the Company. These officers receive no compensation from the Company for their services to it as their entire salary is paid by the Bank. At December 31, 2007, the Bank employed 231 full-time employees and 48 part-time employees. The Bank is not a party to any collective bargaining agreements, and employee relations are considered to be good.

SUPERVISION AND REGULATION

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

General.

The FRB requires the Company to maintain certain levels of capital and to file an annual report with the FRB. The FRB also has the authority to conduct examinations of the Company and the Bank and to take enforcement action against any bank holding company that engages in any unsafe or unsound practice or that violates certain laws, regulations, or conditions imposed in writing by the FRB.

Capital Standards.

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

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Since December 31, 1992, the federal banking agencies have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items of 4%. At December 31, 2007, the Company's ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items was 17.06% and its ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items was 16.07%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 3%. The Company's leverage capital ratio at December 31, 2007 was 9.98%.

Prompt Corrective Action and Other Enforcement Mechanisms.

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

Safety and Soundness Standards.

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

Restrictions on Dividends and Other Distributions.

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

The approval of the Mississippi Department of Banking and Consumer Finance is also required prior to the Bank paying dividends. The department's regulations limit dividends to earned surplus in excess of three times the Bank's capital stock. At December 31, 2007, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was \$66,442,211, or 9.8% of the Bank's consolidated net assets.

FRB regulations limit the amount the Bank may loan to the Company unless those loans are collateralized by specific obligations. At December 31, 2007, the maximum amount available for transfer from the Bank in the form of cash dividends and loans was \$134,532,574, or 19.8% of the Bank's consolidated net assets. The Bank does not have any outstanding loans with the Company.

FDIC Insurance Assessments.

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

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

Other BHC Act Provisions.

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

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

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

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

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

Interstate Banking and Branching.

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

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

Community Reinvestment Act.

The CRA requires the assessment by the appropriate regulatory authority of a financial institution’s record in meeting the credit needs of the local community, including low and moderate-income neighborhoods. The regulations promulgated under CRA emphasize an assessment of actual performance in meeting local credit needs, rather than of the procedures followed by a bank to evaluate compliance with the CRA. CRA compliance is also a factor in evaluations of proposed mergers, acquisitions and applications to open new branches or facilities. Overall CRA compliance is rated across a four-point scale from “outstanding” to “substantial noncompliance.” Different evaluation methods are used depending on the asset size of the bank.

The FDIC examined the Bank on August 17, 2004 and again most recently on August 21, 2007, for its performance under the CRA. The Bank was rated Satisfactory during both of these examinations. No discriminatory practices or illegal discouragement of applications were found.

Anti-Money Laundering Efforts.

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

Corporate Governance.

The Sarbanes-Oxley Act of 2002 (“Sarbanes Act”) requires publicly traded companies, such as the Company, to adhere to several directives designed to prevent corporate misconduct. Additional duties have been placed on officers, directors, auditors and attorneys of public companies. The Sarbanes Act requires certifications regarding financial statement accuracy and internal control adequacy by the chief executive officer and the chief financial officer to accompany periodic reports filed with the Securities and Exchange Commission (“SEC”). The Sarbanes Act

also accelerates insider reporting obligations under Section 16 of the Securities Exchange Act of 1934, as amended, restricts certain executive officer and director transactions, imposes new obligations on corporate audit committees and provides for enhanced review by the SEC.

Impact of Monetary Policies.

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

COMPETITION

The banking business is highly competitive. The Company's market area consists principally of Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Oktibbeha, Winston and Kemper counties in Mississippi. The Company competes with other financial institutions in these counties and in surrounding counties in Mississippi in obtaining deposits and providing many types of financial services. The Company also competes with larger regional banks for the business of companies located in the Company's market area.

All financial institutions, including the Company, compete for customers' deposits. The Company also competes with savings and loan associations, credit unions, production credit associations, federal land banks, finance companies, personal loan companies, money market funds and other non-depository financial intermediaries. Many of these financial institutions have resources many times greater than those of the Company. In addition, new financial intermediaries such as money-market mutual funds and large retailers are not subject to the same regulations and laws that govern the operation of traditional depository institutions. The Company believes it benefits from a good reputation in the community and from the significant length of time it has provided needed banking services to its customers. Also, as a locally owned financial institution, the Company believes it is able to respond to the needs of the community with services tailored to the particular demands of its customers. Furthermore, as a local institution, the Company believes it can provide such services faster than a larger institution not based in the Company's market area.

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

Currently, there are approximately fourteen different financial institutions in the Company's market area competing for the same customer base. As of June 30, 2007, the Company's market share in its market area was approximately 15.5%. The Company competes in its market for loan and deposit products, along with many of the other services required by today's banking customer, on the basis of availability, quality and pricing. The Company believes it is able to compete favorably in its markets, in terms of both the rates we offer and the level of service that we provide to our customers.

AVAILABILITY OF INFORMATION

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto, along with other information about the Company, are available, free of charge, on our website, <http://www.citizensholdingcompany.com>. Upon request, the Company will provide to any record holder or beneficial holder of its shares a copy of such reports without charge. Requests should be made to Robert T. Smith, Treasurer and Chief Financial Officer, Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

ITEM 1A. RISK FACTORS

In addition to the other information contained in or incorporated by reference into this Annual Report on Form 10-K and the exhibits hereto, the following risk factors should be considered carefully in evaluating our business. The risks disclosed below, either alone or in combination, could materially adversely affect the business, financial condition or results of operations of the Company. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

Risks Related To Our Business and Industry

We are subject to interest rate risk.

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

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the results of operations of the Company, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Volatility in interest rates may also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as U.S. Government and Agency securities and other

investment vehicles, including mutual funds, which generally pay higher rates of return than financial institutions because of the absence of federal insurance premiums and reserve requirements. Disintermediation could also result in material adverse effects on our financial condition and results of operations.

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

We are subject to lending risk.

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

As of December 31, 2007, approximately 53% of our loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

The allowance for possible loan losses may be insufficient.

Although we try to maintain diversification within our loan portfolio in order to minimize the effect of economic conditions within a particular industry, management also maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on management's quarterly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment. Among other considerations in establishing the allowance for loan losses, management considers economic conditions reflected within industry segments, the unemployment rate in our markets, loan segmentation and historical losses that are inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

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

Bank holding companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we often rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities.

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

We are subject to recent downturns and disruptions

In 2007 several downturns and disruptions occurred in markets which are important to our businesses, and similar or additional adverse events may occur in the future. Although those events did not create new types of risks, we believe it is useful to highlight some of the key impacts of those events on our business to illustrate how events beyond our control can adversely affect us.

Some of the significant recent downturns and disruptions relevant to mortgage and related businesses include:

- residential housing values in the US have stagnated or fallen, and in some highly-populated markets values have fallen significantly;

-
- the volume of residential housing transactions also has stagnated or fallen, and in some markets volume has fallen significantly;
 - investor demand for mortgage-backed securities fluctuated suddenly and sharply, and for some categories of mortgages disappeared almost entirely;
 - except for “conforming loans,” which are loan products conforming to standards of certain government sponsored entities, rates for some types of home mortgage products have risen sharply and some mortgage products, with new and more restrictive credit criteria, have become difficult for borrowers to obtain even at high interest rates, making it difficult or impossible for some borrowers to refinance an existing mortgage;
 - many mortgage borrowers in recent years have obtained adjustable-rate products, and it is possible that many will adjust to higher rates, and therefore higher payments, in the near future;
 - fear has been expressed by some public officials and others that mortgage-related defaults, foreclosures, and personal bankruptcies have risen and will rise significantly in the future;
 - the US Congress and other governmental bodies have considered, and in the future may enact or adopt, new laws and regulations intended to modify the terms of outstanding mortgage loans in a manner benefiting borrowers at the expense of lenders, restrict the ability of lenders to make new loans, and increase the regulatory burdens and legal risks on mortgage lenders and servicers; and
 - the Federal Reserve has acted recently to lower certain short-term interest rates, possibly to help ameliorate the impacts of the disruptions in housing and the mortgage industry, which has triggered reductions in the prime lending rates charged by most US banks.

Some of the significant actual and potential impacts of those events on one or more of our businesses include:

- pressures on our liquidity in the mortgage business as investor demand shrank and the securitization markets diminished or, for some products, disappeared;
- significant reduction in our ability to create gains on sale of mortgage loans we originate;
- significant reduction in mortgage origination volume and fees;
- significant increase in delinquencies in some loan products and markets which are related to mortgages and housing;
- significant increase in loan loss provision for loans secured by, or directly related to, mortgages and the housing industry,
- significant increase in costs of servicing mortgages due to increased credit remediation and loss mitigation activity, as well as increased collection and foreclosure activity;

-
- the possibility that falling US prime rates in 2008 could compress our net interest margin; and
 - the possibility that, in 2008, adjustable rate HELOC loans that are tied to falling US prime rates could be drawn more fully and could be pre-paid less often so that, in conjunction with falling housing values, the ratio of HELOC loan balances to current actual values may weaken which could, in turn, translate into higher loan losses and higher provisioning for future losses within the HELOC portfolio.

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

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

The earnings of bank holding companies are significantly affected by general business and economic conditions.

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

We operate in a highly competitive industry and market area.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have more financial resources. Such competitors primarily include national, regional and community banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The information under the heading "Competition" in Item 1, "Business," provides more information regarding the competitive conditions in our markets.

Our industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, many of our competitors have substantially greater resources than us, including higher total assets and capitalization, greater access to capital markets and a broader offering of financial services.

Our ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Company's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which we introduce new products and services relative to our competitors.
- Customer satisfaction with our level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We are subject to extensive government regulation and supervision.

The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, and not the economic or other interests of shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of the foregoing, could affect the Company or the Bank in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

Under regulatory capital adequacy guidelines and other regulatory requirements, the Company and the Bank must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. Our failure to maintain the status of "well capitalized" under our regulatory framework could affect the confidence of our customers in us, thus compromising our competitive position. In addition, failure to maintain the status of "well capitalized" under our regulatory framework or "well managed" under regulatory examination procedures could compromise our status as a bank holding company and related eligibility for a streamlined review process for acquisition proposals.

We are also subject to laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes Act and SEC regulations. These laws, regulations and standards are subject to varying interpretations in many cases, and as a result, their application in practice may evolve over time as guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased expenses and a diversion of management time and attention.

Failure to comply with laws, regulations or policies could also result in sanctions by regulatory agencies and/or civil money penalties, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. The information under the heading “Supervision and Regulation” in Item 1, “Business,” and Note 14, “Regulatory Matters” to the Consolidated Financial Statements of the Company in Item 8, “Financial Statements and Supplementary Data,” provides more information regarding the regulatory environment in which we and our Bank operate.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to our adherence to financial reporting, disclosure and corporate governance policies and procedures.

Slower than anticipated growth in new branches and new product and service offerings could result in reduced income.

We have placed a strategic emphasis on expanding our branch network and product offerings. Executing this strategy carries risks of slower than anticipated growth both in new branches and new products. New branches and products require a significant investment of both financial and personnel resources. Lower than expected loan and deposit growth in new investments can decrease anticipated revenues and net income generated by those investments, and opening new branches and introducing new products could result in more additional expenses than anticipated and divert resources from current core operations.

We are substantially dependent on dividends from the Bank for our revenues.

The Company is a separate and distinct legal entity from the Bank, and it receives substantially all of its revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on debt. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the

Company. In the event the Bank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from the Bank could have a material adverse effect on our business, financial condition and results of operations. The information under the heading "Supervision and Regulation" in Item 1, "Business," provides a discussion about the restrictions governing the Bank's ability to transfer funds to us.

Potential acquisitions may disrupt our business and dilute shareholder value.

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

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

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

We may not be able to attract and retain skilled people.

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

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on the financial condition and results of operations of the Company.

We continually encounter technological change.

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

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

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

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the ability of the Company to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. Although no hurricanes made landfall in the coastal areas along the Gulf of Mexico in 2007, Hurricanes Katrina and Rita made landfall in 2005

and subsequently caused extensive flooding and destruction in those coastal areas. Although our operations were not disrupted by these hurricanes or their aftermath, other severe weather or natural disasters, acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Risks Associated With Our Common Stock

Our stock price can be volatile.

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

- actual or anticipated variations in quarterly results of operations.
- recommendations by securities analysts.
- operating and stock price performance of other companies that investors deem comparable to the Company.
- news reports relating to trends, concerns and other issues in the banking and financial services industry.
- perceptions in the marketplace regarding us and/or our competitors.
- new technology used, or services offered, by competitors.
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors.
- failure to integrate acquisitions or realize anticipated benefits from acquisitions.
- changes in government regulations.
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

Additionally, general market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

The trading volume in our common stock is less than that of other larger bank holding companies.

Our common stock is listed for trading on The NASDAQ Global Market, having transferred the listing of our common stock from the American Stock Exchange in November 2006. The average daily trading volume in our common stock is low, generally less than that of many of our competitors and other larger bank holding companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause volatility in the price of our common stock.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

Our Articles of Incorporation and Bylaws, as well as certain banking laws, may have an anti-takeover effect.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company, through the Bank, currently operates from its main office in downtown Philadelphia, Mississippi, and from 21 additional branches in Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Oktibbeha, Winston and Kemper counties, Mississippi. Information about these branches is set forth in the table below:

NAME OF OFFICE	LOCATION/ TELEPHONE NUMBER	BANKING FUNCTIONS OFFERED
Main Office	521 Main Street Philadelphia, Mississippi (601) 656-4692	Full Service; Trust 24 Hour Teller
Eastside Branch	585 East Main Street Philadelphia, Mississippi (601) 656-4976	Full Service; 24 Hour Teller
Westside Branch	912 West Beacon Street Philadelphia, Mississippi (601) 656-4978	Full Service; 24 Hour Teller
Northside Branch	802 Pecan Avenue Philadelphia, Mississippi (601) 656-4977	Deposits; 24 Hour Teller

Pearl River Branch	110 Choctaw Town Center Philadelphia, Mississippi (601) 656-4971	Deposits; 24 Hour Teller
Union Branch	Comer of Horne & Bank Union, Mississippi (601) 774-9231	Full Service
Carthage Main Office	219 West Main Street Carthage, Mississippi (601) 267-4525	Full Service
Madden Branch	Highway 488 Madden, Mississippi (601) 267-7366	Deposits
Sebastopol Branch	24 Pine Street Sebastopol, Mississippi (601) 625-7447	Full Service; 24-Hour Teller
DeKalb Branch	Comer of Main & Bell DeKalb, Mississippi (601) 743-2115	Full Service
Kosciusko Branch	775 North Jackson Avenue Kosciusko, Mississippi (662) 289-4356	Full Service; 24-hour Teller
Scooba Branch	1048 Johnston Street Scooba, Mississippi (662) 476-8431	Full Service
Meridian Branch	1825 Highway 39 North Meridian, Mississippi (601) 693-8367	Full Service; 24-Hour Teller
Decatur Branch	15330 Highway 15 South Decatur, Mississippi (601) 635-2321	Full Service; 24-Hour Teller
Forest Branch	247 Woodland Drive North Forest, Mississippi (601) 469-3424	Full Service; 24-Hour Teller

Louisville Main Branch	100 East Main Street Louisville, MS (662) 773-6261	Full Service 24 Hour Teller
Industrial Branch	803 South Church Street Louisville, MS (662) 773-6261	Drive-Up
Noxapater Branch	45 East Main Street Noxapater, MS (662) 724-4261	Deposits
Starkville Branch	201 Highway 12 Starkville, MS 39759 (662) 323-4210	Full Service 24 Hour Teller
Collinsville Branch	9065 Collinsville Road Collinsville, MS 39325 (601) 626-7608	Full Service 24 Hour Teller
Meridian Mid-Town	905 22 nd Avenue Meridian, MS 39301 (601) 482-8858	Full Service 24 Hour Teller
Meridian Broadmoor	5015 Highway 493 Meridian, MS 39305 (601) 581-1541	Full Service 24 Hour Teller

The Bank owns its main office and its branch offices, except for the Pearl River branch office and the Meridian Mid-Town Branches, which are leased. The main office facility, originally occupied in 1966, is used solely by the Company and the Bank. This facility contains approximately 20,000 square feet and houses the executive offices and all operations-related departments of the Company. A renovation of the first floor of this building, including the main banking lobby was completed in August 2006. The other branches range in size from nearly 4,000 square feet to 1,000 square feet.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to the Company's shareholders during the fourth quarter of 2007.

PART II

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

Information required in partial response to this Item 5 can be found under the heading "Market Price and Dividend Information" in the 2007 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

ITEM 6. SELECTED FINANCIAL DATA.

Information required in response to this Item 6 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2007, 2006 and 2005—Selected Financial Data" in the 2007 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

Information required in response to this Item 7 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2007, 2006 and 2005" in the 2007 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

Information required in response to this Item 7A can be found under the headings "Quantitative and Qualitative Disclosures about Market Risk" in the 2007 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information required in response to this Item 8 can be found under the heading "Consolidated Financial Statements" and "Quarterly Financial Trends" in the 2007 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The management of this Company, with the participation of our principal executive and financial officers, 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 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2007 (the end of the period covered by this Annual Report on Form 10-K).

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

Information required in response to this item can be found under the headings "Management's Assessment of Internal Control over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" in the Company's Consolidated Financial Statements contained in its 2007 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There were no changes to the internal control over financial reporting in the fourth quarter of 2007 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9A(T). CONTROLS AND PROCEDURES.

Not applicable.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required in partial response to this Item 10 can be found under the heading “Executive Officers of the Registrant” in Item 1, “Business,” and under the headings “Stock Ownership” and “Board of Directors” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 19, 2007, relating to its 2008 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Code of Ethics

The Company has adopted a code of business ethics in compliance with Item 406 of Regulation S-K for the Company’s principal executive officer, principal financial officer, principal accounting officer and controller. A copy of the Company’s Code of Ethics was filed as an exhibit to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 26, 2004 and is incorporated herein by reference. On September 26, 2006, the Company approved an expanded Code of Conduct that covers all directors, officers and employees. Copies of both the Code of Ethics and the Code of Conduct can be found on the Company’s website: <http://www.citizensholdingcompany.com>. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics and the Code of Conduct by posting information on our website at the address specified above.

ITEM 11. EXECUTIVE COMPENSATION.

Information required in response to this Item 11 can be found under the headings “Board of Directors,” “Executive Officers and Executive Compensation,” “Report of the Compensation Committee,” and “Compensation Committee Interlocks and Insider Participation” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 19, 2008, relating to its 2008 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

Information required in partial response to this Item 12 can be found under the heading “Stock Ownership” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 19, 2007, relating to its 2008 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2007.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
Equity compensation plans approved by security holders ⁽¹⁾	292,950	\$ 18.06	183,962 ⁽²⁾
Equity compensation plans not approved by security holders	-0-	\$ 0.00	-0-
Total	292,950	\$ 18.06	183,962

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

⁽²⁾ Includes 71,700 shares that remain available for future issuance under the 1999 Directors' Stock Compensation Plan. Also include 112,262 shares available for future issuance under the 1999 Employees' Long-Term Incentive Plan ("LTIP"). Under the terms of the LTIP, the number of shares that may be issued cannot exceed 7% of the total number of shares issued and outstanding from time to time. In addition to stock options, restricted stock may be awarded under the LTIP. No restricted stock has been awarded under the LTIP.

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

Information required in response to this Item 13 can be found under the heading "Board of Directors" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 19, 2008, relating to its 2008 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information required in response to this Item 14 can be found under the heading "Proposal No. 3- Appointment of HORNE LLP as the Company's Independent Registered Public Accounting Firm" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 19, 2008, relating to its 2008 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

1. Consolidated Financial Statements and Supplementary Information for years ended December 31, 2005, 2006 and 2007, which include the following:
 - (i) Report of Independent Registered Public Accounting Firm (Financial Statements)
 - (ii) Report of Independent Registered Public Accounting Firm (Internal Control)
 - (iii) Management's Assessment of Internal Control over Financial Reporting
 - (iv) Consolidated Balance Sheets
 - (v) Consolidated Statements of Income
 - (vi) Consolidated Statements of Comprehensive Income
 - (vii) Consolidated Statements of Changes in Shareholders' Equity
 - (viii) Consolidated Statements of Cash Flows
 - (ix) Notes to Consolidated Financial Statements
2. Financial Statement Schedules

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

3(i)	Amended Articles of Incorporation of the Company	*
3(ii)	Amended and Restated Bylaws of the Company, as amended**	
4	Rights Agreement between Citizens Holding Company and The Citizens Bank of Philadelphia, Mississippi	*
10(a)	Directors' Deferred Compensation Plan - Form of Agreement	*†
10(b)	Citizens Holding Company 1999 Directors' Stock Compensation Plan	*†
10(c)	Citizens Holding Company 1999 Employees' Long-Term Incentive Plan	*†
10(d)	Change in Control Agreement dated December 10, 2002 between the Company and Greg L. McKee	***†
10(f)	Supplemental Executive Retirement Plan	****†
13	2007 Annual Report to Shareholders	
14	Code of Ethics	*****
21	Subsidiaries of Registrant	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	
32.1	Section 1350 Certification of Chief Executive Officer	
32.2	Section 1350 Certification of Chief Financial Officer	

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

-
- ** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (File No. 000-25221) filed on March 15, 2007 and incorporated herein by reference.
 - *** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 000-25221) filed on March 31, 2003 and incorporated herein by reference.
 - **** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (File No. 000-25221) filed on March 16, 2005 and incorporated herein by reference.
 - ***** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (File No. 000-25221) filed on March 26, 2004 and incorporated herein by reference.
 - † Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

SIGNATURES

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

CITIZENS HOLDING COMPANY

Date: March 7, 2008

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

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

<u>SIGNATURES</u>	<u>CAPACITIES</u>	<u>DATE</u>
<u>/s/ Terrell E. Winstead</u> Terrell E. Winstead	Director	March 7, 2008
<u>/s/ David A. King</u> David A. King	Director	March 7, 2008
<u>/s/ Herbert A. King</u> Herbert A. King	Director	March 7, 2008
<u>/s/ Don L. Fulton</u> Don L. Fulton	Director	March 7, 2008
<u>/s/ David P. Webb</u> David P. Webb	Director	March 7, 2008
<u>/s/ A. T. Williams</u> A.T. Williams	Director	March 7, 2008

<u>/s/ Greg L. McKee</u> Greg L. McKee	Director, President and Chief Executive Officer	March 7, 2008
<u>/s/ Robert T. Smith</u> Robert T. Smith	Treasurer, Chief Financial Officer and Controller	March 7, 2008
<u>/s/ William M. Mars</u> William M. Mars	Chairman of the Board	March 7, 2008
<u>/s/ Adam Mars</u> Adam Mars	Director	March 7, 2008

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
13	2007 Annual Report to Shareholders
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

Dear Stockholder:

I am pleased to be able to present a summary of what was accomplished during 2007. This past year can be viewed as a period of building and positioning for the future of the company. Many of the endeavors and accomplishments of last year were undertaken with the goal of building and maximizing long-term value to the stockholders. We are satisfied that these achievements will accomplish that in a timely fashion.

We continue to take advantage of any viable opportunities as they are presented. Throughout the past year, several opportunities arose that fit well within our strategic plan. These opportunities included property acquisition, branch development and increased staff in various markets. As always, considerable additional expenses are to be expected during a transition or growth stage. Although this was the case for 2007, our expectations are already beginning to be achieved.

We opened two new branches during the year. Our eco-friendly building in Starkville, Mississippi was opened, and our staff there now offers full service banking to an expanding market. We purchased property and remodeled a building in Collinsville, Mississippi. This branch offers our services to a growing community in Lauderdale County. We hired and trained staff for two additional branches in Meridian, Mississippi, which were fully operational in early 2008. We increased our lending staff at several existing locations during the year. As this staff makes additional loans, this additional payroll expense will become a revenue enhancement. I fully understand what factors caused the company's net earnings position for 2007; and, while I would certainly have been pleased with better results, I am not discouraged due to the previously mentioned opportunities. We simply experienced some growth pains that have to be endured to achieve the desired long-term value for the stockholders.

We will continue to follow our strategic plan for growth. In so doing, we are constantly evaluating opportunities and ways to leverage our healthy capital position into increased revenues and maximized values for you. During this time of economic uncertainties, we will stay the course with sound, prudent business decisions as we carry our type of customer- friendly banking into new markets.

We continually appreciate the support of a dedicated group of stockholders, customers and employees. Considering the company's accomplishments during 2007, we are motivated and ready for 2008.

As always, thank you for your interest and support in a great company!

Sincerely,



Greg L. McKee
President & CEO

**CITIZENS HOLDING COMPANY
AND SUBSIDIARY**

Philadelphia, Mississippi

Consolidated Financial Statements

Years Ended December 31, 2007, 2006 and 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 10, 2008

To the Board of Directors & Stockholders
Citizens Holding Company
Philadelphia, Mississippi

We have audited the consolidated balance sheets of Citizens Holding Company and Subsidiary (the “Company”) as of December 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2007. We also have audited the Company’s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

To the Board of Directors and Stockholders
Citizens Holding Company

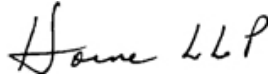
Page Two

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

HORNE LLP

A handwritten signature in cursive script that reads "Horne LLP".

Jackson, Mississippi

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management, under the direction of the chief executive officer and chief financial officer, assessed the Company's internal control over financial reporting as of December 31, 2007 based on the criteria for effective internal control over financial reporting established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2007, the Company maintained effective internal control over financial reporting.

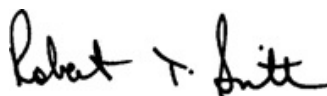
The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (2) provide reasonable assurance that transactions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

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

HORNE LLP, the Company's Independent Registered Public Accounting Firm, has audited the Company's internal control over financial reporting as of December 31, 2007, as stated in their report, beginning on page 1, which expresses an unqualified opinion on the Company's internal control over financial reporting as of December 31, 2007.



Greg L. McKee
President and Chief Executive Officer



Robert T. Smith
Treasurer and Chief Financial Officer

March 7, 2008

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2007 and 2006

ASSETS	2007	2006
Cash and due from banks	\$ 18,622,058	\$ 15,449,434
Interest bearing deposits with other banks	612,938	396,811
Federal funds sold	900,000	15,200,000
Securities available for sale, at fair value (amortized cost of \$245,410,195 in 2007 and \$175,450,210 in 2006)	244,720,367	174,617,149
Loans, net of allowance for loan losses of \$3,967,951 in 2007 and \$3,712,375 in 2006	368,025,286	369,280,664
Bank premises, furniture, fixtures and equipment, net	14,288,797	12,106,456
Real estate acquired by foreclosure	2,046,584	2,707,885
Accrued interest receivable	5,210,201	5,015,574
Cash value of life insurance	17,693,476	16,846,557
Intangible assets	4,215,070	4,752,573
Other assets	4,568,854	4,824,393
Total assets	<u>\$680,903,631</u>	<u>\$621,197,496</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing deposits	\$ 78,224,936	\$ 82,867,220
Interest bearing time deposits	399,007,368	388,980,036
Total deposits	477,232,304	471,847,256
Federal funds purchased	4,200,000	—
Sweep account liability	74,963,424	12,767,483
Federal Home Loan Bank advances	49,400,000	59,400,000
Accrued interest payable	1,915,232	1,153,890
Deferred compensation payable	2,989,940	2,699,783
Other liabilities	2,011,299	2,181,742
Total liabilities	<u>612,712,199</u>	<u>550,050,154</u>
Commitments and contingencies	—	—
Minority interest	—	1,482,069
Stockholders' equity		
Common stock, \$0.20 par value, authorized 22,500,000 shares; 4,863,242 shares issued at 2007 and 5,020,228 at 2006	972,648	1,004,046
Additional paid-in capital	3,979,717	3,886,830
Accumulated other comprehensive loss, net of taxes of \$257,306 in 2007 and \$304,082 in 2006	(432,522)	(511,161)
Retained earnings	63,671,589	65,285,558
Total stockholders' equity	<u>68,191,432</u>	<u>69,665,273</u>
Total liabilities and stockholders' equity	<u>\$680,903,631</u>	<u>\$621,197,496</u>

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Income
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Interest income			
Interest and fees on loans	\$28,981,941	\$28,914,226	\$26,435,191
Interest on securities			
Taxable	4,927,774	3,651,802	3,022,520
Non-taxable	3,169,536	3,514,524	3,406,130
Other	1,020,601	406,842	179,863
Total interest income	<u>38,099,852</u>	<u>36,487,394</u>	<u>33,043,704</u>
Interest expense			
Deposits	12,814,534	10,314,943	7,431,479
Other borrowed funds	3,948,220	2,866,762	2,415,801
Total interest expense	<u>16,762,754</u>	<u>13,181,705</u>	<u>9,847,280</u>
Net interest income	21,337,098	23,305,689	23,196,424
Provision for loan losses	(784,120)	360,910	(1,084,326)
Net interest income after provision for loan losses	<u>20,552,978</u>	<u>23,666,599</u>	<u>22,112,098</u>
Non-interest income			
Service charges on deposit accounts	3,859,598	3,816,473	3,556,824
Other service charges and fees	763,079	567,320	585,288
Net gains (losses) on securities sales	29,339	(12,318)	—
Other income	3,126,633	1,816,046	1,594,811
Total non-interest income	<u>7,778,649</u>	<u>6,187,521</u>	<u>5,736,923</u>
Non-interest expense			
Salaries and employee benefits	10,539,810	9,980,336	9,523,367
Occupancy expense	1,688,809	1,395,498	1,163,219
Equipment expense	1,528,841	1,614,969	1,739,751
Earnings applicable to minority interest	—	185,409	198,872
Other expense	5,691,823	5,446,971	4,891,696
Total non-interest expense	<u>19,449,283</u>	<u>18,623,183</u>	<u>17,516,905</u>
Income before income taxes	8,882,344	11,230,937	10,332,116
Income tax expense	1,968,110	2,836,413	2,365,984
Net income	<u>\$ 6,914,234</u>	<u>\$ 8,394,524</u>	<u>\$ 7,966,132</u>
Net income per share – basic	<u>\$ 1.41</u>	<u>\$ 1.67</u>	<u>\$ 1.59</u>
Net income per share – diluted	<u>\$ 1.39</u>	<u>\$ 1.65</u>	<u>\$ 1.57</u>
Average shares outstanding			
Basic	<u>4,913,946</u>	<u>5,016,257</u>	<u>5,006,493</u>
Diluted	<u>4,964,475</u>	<u>5,080,755</u>	<u>5,066,165</u>

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income	\$6,914,234	\$8,394,524	\$ 7,966,132
Other comprehensive income (loss)			
Unrealized holding gains (losses) during year	172,573	729,836	(2,196,048)
Income tax effect	(64,369)	(272,229)	798,637
Net unrealized gains (losses)	<u>108,204</u>	<u>457,607</u>	<u>(1,397,411)</u>
Reclassification adjustment for (gains) losses included in net income	(29,339)	12,318	—
Income tax effect	<u>10,943</u>	<u>(4,594)</u>	<u>—</u>
Net (gains) losses included in net income	<u>(18,396)</u>	<u>7,724</u>	<u>—</u>
Change in minority interest in net unrealized gains (losses)	<u>(11,169)</u>	<u>(9,950)</u>	<u>30,948</u>
Total other comprehensive income (loss)	<u>78,639</u>	<u>455,381</u>	<u>(1,366,463)</u>
Comprehensive income	<u>\$6,992,873</u>	<u>\$8,849,905</u>	<u>\$ 6,599,669</u>

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2007, 2006 and 2005

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2004	5,000,278	\$1,000,056	\$3,150,246	\$ 399,921	\$55,641,002	\$60,191,225
Net income	—	—	—	—	7,966,132	7,966,132
Dividends paid (\$0.65 per share)	—	—	—	—	(3,254,591)	(3,254,591)
Options exercised, net of tax benefit of \$106,792	9,000	1,800	236,002	—	—	237,802
Other comprehensive loss, net	—	—	—	(1,366,463)	—	(1,366,463)
Balance, December 31, 2005	5,009,278	1,001,856	3,386,248	(966,542)	60,352,543	63,774,105
Net income	—	—	—	—	8,394,524	8,394,524
Dividends paid (\$0.69 per share)	—	—	—	—	(3,461,509)	(3,461,509)
Options exercised, net of tax benefit of \$12,287	10,950	2,190	196,421	—	—	198,611
Stock compensation expense	—	—	304,161	—	—	304,161
Other comprehensive loss, net	—	—	—	455,381	—	455,381
Balance, December 31, 2006	5,020,228	1,004,046	3,886,830	(511,161)	65,285,558	69,665,273
Net income	—	—	—	—	6,914,234	6,914,234
Dividends paid (\$0.73 per share)	—	—	—	—	(3,576,655)	(3,576,655)
Options exercised, net of tax benefit of \$10,927	3,200	640	25,915	—	—	26,555
Shares repurchased	(160,186)	(32,038)	—	—	(3,450,115)	(3,482,153)
Increase investment in subsidiary	—	—	—	—	(1,501,433)	(1,501,433)
Stock compensation expense	—	—	66,972	—	—	66,972
Other comprehensive income, net	—	—	—	78,639	—	78,639
Balance, December 31, 2007	<u>4,863,242</u>	<u>\$ 972,648</u>	<u>\$3,979,717</u>	<u>\$ (432,522)</u>	<u>\$63,671,589</u>	<u>\$68,191,432</u>

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities			
Net income	\$ 6,914,234	\$ 8,394,524	\$ 7,966,132
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,068,377	950,340	1,024,320
Amortization of intangibles	537,503	537,503	537,503
Amortization of premiums and accretion of discounts on investment securities	461,914	697,003	1,182,298
Stock compensation expense	41,994	304,161	—
Provision for loan losses	784,120	(360,910)	1,084,326
Realized investment securities (gains) losses	(29,339)	12,318	—
Deferred income tax benefit	(286,890)	(169,994)	(310,432)
Net earnings applicable to minority interest	—	108,975	198,872
Earnings from equity investment	(112,330)	(102,411)	(131,664)
Increase in accrued interest receivable	(194,627)	(320,427)	(309,255)
Increase in cash value of life insurance	(846,919)	(800,884)	(540,844)
Increase in accrued interest payable	761,342	355,223	178,077
Increase in deferred compensation liability	290,157	333,191	209,551
Net change in other operating assets and liabilities	284,641	3,627,264	2,212,319
Net cash provided by operating activities	<u>9,674,177</u>	<u>13,565,876</u>	<u>13,301,203</u>
Cash flows from investing activities			
Proceeds from maturities of securities available-for-sale	15,130,290	15,451,326	37,496,514
Proceeds from sales of securities available-for-sale	22,916,630	18,132,710	—
Purchases of securities available-for-sale	(53,312,896)	(38,846,962)	(51,638,423)
Purchases of bank premises, furniture, fixtures and equipment	(3,250,718)	(3,162,581)	(1,146,322)
Proceeds from sale of real estate acquired by foreclosure	2,263,187	691,132	2,043,687
Net (increase) decrease in interest bearing deposits with other banks	(216,127)	(83,986)	505,891
Net (increase) decrease in loans	(1,130,628)	5,620,592	(13,412,543)
Net decrease (increase) in federal funds sold	14,300,000	(15,200,000)	11,000,000
Cash paid for acquisition of subsidiary stock	(2,994,671)	—	—
Net decrease in other securities	7,229,658	—	—
Net cash provided (used) by investing activities	<u>934,725</u>	<u>(17,397,769)</u>	<u>(15,151,196)</u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

Page 2 of 2

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from financing activities			
Net increase in deposits	\$ 5,385,048	\$ (1,964,978)	\$ (651,511)
Net increase (decrease) in federal funds purchased	4,200,000	(1,600,000)	1,600,000
Proceeds from exercise of stock options	26,555	186,324	131,610
Excess tax benefits on stock option exercises	10,927	27,108	—
Repurchase of company stock	(3,482,153)	—	—
Dividends paid to stockholders	(3,576,655)	(3,461,509)	(3,254,591)
Federal Home Loan Bank advance proceeds	—	15,000,000	25,000,000
Federal Home Loan Bank advance payments	(10,000,000)	(15,648,818)	(11,069,748)
Net cash (used) provided by financing activities	<u>(7,436,278)</u>	<u>(7,461,873)</u>	<u>11,755,760</u>
Net increase (decrease) in cash and due from banks	3,172,624	(11,293,766)	9,905,767
Cash and due from banks, beginning of year	15,449,434	26,743,200	16,837,433
Cash and due from banks, end of year	<u>\$ 18,622,058</u>	<u>\$ 15,449,434</u>	<u>\$ 26,743,200</u>
Supplemental disclosures of cash flow information			
Cash paid for Interest	<u>\$ 16,001,411</u>	<u>\$ 12,826,482</u>	<u>\$ 9,669,203</u>
Income taxes	<u>\$ 1,967,770</u>	<u>\$ 4,711,328</u>	<u>\$ 786,026</u>
Non-cash disclosures			
Real estate acquired by foreclosure	<u>\$ 1,601,886</u>	<u>\$ 480,646</u>	<u>\$ 2,232,018</u>
Unrealized gain (loss) on investments	<u>\$ 172,573</u>	<u>\$ 729,836</u>	<u>\$ (2,196,048)</u>

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY

Years Ended December 31, 2007, 2006 and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accounting policies of Citizens Holding Company and subsidiary conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The consolidated financial statements of Citizens Holding Company include the accounts of its wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (collectively referred to as the "Company"). All significant intercompany transactions have been eliminated in consolidation. As the result of a 1-for-1,000 reverse stock split on January 2, 2007, Citizens Holding Company became the sole owner of The Citizens Bank of Philadelphia, Mississippi.

Nature of Business

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

Estimates

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

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

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance 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. Because of these factors, it is reasonably possible that the allowance for loan losses and valuation of foreclosed real estate may change materially in the near term.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Cash and Due from Banks

For the purpose of reporting cash flows, cash and due from banks include cash on hand and demand deposits. Cash flows from loans originated by the Company, deposits, and federal funds purchased and sold are reported net in the statement of cash flows. The Company is required to maintain average reserve balances with the Federal Reserve Bank based on a percentage of deposits. The average reserve required by the Federal Reserve Bank at December 31, 2007 and 2006 was \$749,000 and \$812,000, respectively.

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

At December 31, 2007 and 2006, the Company had deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of the financial institutions and believes there is minimal risk.

Investment Securities

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, securities are classified as "available-for-sale," "held-to-maturity" or "trading". Fair values for securities are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Gains or losses on the sale of securities are determined using the specific identification method. Currently, the Company has no held-to-maturity or trading securities.

Securities Available-for-Sale

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

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Loans and Allowance for Loan Losses

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

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

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

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

The allowance for loan losses is established through a provision for loan losses charged against net income. Loans determined to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance represents an amount, which, in management's judgment, will be adequate to absorb estimated probable losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans and prior loss experience. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, review of specific problem loans, the Company's past loan loss experience, adverse situations that may affect the borrowers' ability to pay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors.

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

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

Bank Premises, Furniture, Fixtures and Equipment

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

Real Estate Acquired by Foreclosure

Real estate acquired by foreclosure consists of properties repossessed by the Company on foreclosed loans. These assets are stated at the lower of the outstanding loan amount (including accrued interest, if any) or fair value at the date acquired less estimated costs to sell. Losses arising from the acquisition of such property are charged against the allowance for loan losses. Declines in value resulting from subsequent revaluation of the property or losses resulting from disposition of such property are expensed. Revenue and expenses from operations of other real estate owned are reflected as other income (expense).

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Cash Value of Life Insurance

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

Intangible Assets

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

Investment – Insurance Company

The Company accounts for its investment in New South Life Insurance Company (“New South”), a 25% owned affiliate, using the equity method of accounting. The Company’s share of the net income of New South is recognized as income in the Company’s income statement and added to the investment account, and dividends received from New South are used to reduce the investment account. New South has not paid dividends.

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

The investment in New South, which is included in other assets, totaled \$2,035,526 and \$1,924,196 at December 31, 2007 and 2006, respectively. Income from the investment for the years ended December 31, 2007, 2006, and 2005 included in other income totaled \$112,330, \$102,411 and \$131,664, respectively.

Trust Assets

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as described in SFAS No. 109, *Accounting for Income Taxes*. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Comprehensive Income

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

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share is based on the weighted average number of shares of common stock outstanding for the periods, including the dilutive effect of the Company's outstanding stock options. The effect of the dilutive shares for the years 2007, 2006 and 2005 is illustrated in the following table.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Basic weighted average shares outstanding	4,913,946	5,016,257	5,006,493
Dilutive effect of stock options	50,529	64,498	59,672
Dilutive weighted average shares outstanding	<u>4,964,475</u>	<u>5,080,755</u>	<u>5,066,165</u>
Net income	<u>\$6,914,234</u>	<u>\$8,394,524</u>	<u>\$7,966,132</u>
Net income per share-basic	\$ 1.41	\$ 1.67	\$ 1.59
Net income per share-diluted	\$ 1.39	\$ 1.65	\$ 1.57

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Stock-Based Compensation

At December 31, 2007, the Corporation had two stock-based compensation plans, which are the 1999 Employees' Long-Term Incentive Plan and the 1999 Directors' Stock Compensation Plan. Effective January 1, 2006, the Corporation began accounting for these plans under the recognition and measurement principles of fair value set forth in SFAS No. 123R, *Share-Based Payment*, ("SFAS No. 123R") and the Securities and Exchange Commission Staff Accounting Bulletin 107 ("SAB 107"). SAB 107 provides guidance related to share-based payment transactions, including valuation methods (including assumptions such as expected volatility and expected term), the classification of compensation expense, non-GAAP financial measures, first time adoption of SFAS No. 123R in an interim period and disclosure in Management's Discussion and Analysis subsequent to the adoption of SFAS No. 123R. Effective January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective transition method. Under that method of transition, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. At the date of adoption, there were no unvested share-based payments outstanding. Also, given the limited historical amount of forfeited options, the Company has not reduced compensation expense for estimated forfeitures. The adoption of SFAS No. 123R increased stock compensation expense by \$304,161 in 2006.

Prior to January 1, 2006, the Corporation accounted for options in accordance with Accounting Principles Board ("APB") Opinion No. 25, which results in no compensation cost recognized for grants prior to December 31, 2005. Accordingly, no compensation expense was recognized for stock options granted if the option price is not less than the fair market value of the underlying stock at the grant date. For the year ended December 31, 2005, no stock based compensation expense was included in the determination of net income as all options granted during the years had an exercise price equal to the market value of the stock on the date of grant.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

If compensation expense been determined on the basis of fair value pursuant to SFAS No. 123R, net income and earnings per share would have been reduced as follows:

	2005
Net income	
As reported	\$7,966,132
Stock based employee compensation expense included in reported net income	—
Less stock based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(55,340)
Pro forma net income	\$7,910,792
	2005
Basic earnings per share	
As reported	\$ 1.59
Pro forma	\$ 1.58
Diluted earnings per share	
As reported	\$ 1.57
Pro forma	\$ 1.56

The fair value of each option is estimated on the grant date using the Black-Scholes option pricing model. The following weighted average assumptions were made in estimating fair values:

Assumption	2007	2006	2005
Dividend yield	3.3%	2.9%	3.0%
Risk-free interest rate	4.76%	4.65%	4.0%
Expected life	5.3 years	5.3 years	7 years
Expected volatility	34.88%	28.86%	5.36%
Forfeitures	0%	0%	0%

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$551,998, \$482,540 and \$495,579 for the years ended December 31, 2007, 2006 and 2005, respectively.

Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* ("SFAS No. 107"), requires disclosure of financial instruments' fair values, as well as the methodology and significant assumptions used in estimating fair values. These requirements have been incorporated in Note 1. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of those assets and liabilities.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation was adopted effective January 1, 2007, and did not have a material impact on results of operation or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within

those fiscal years. The Company does not expect the adoption of SFAS No. 157 to have a material effect on the Company's financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* ("SFAS No. 159"). The FASB has issued SFAS No. 159 to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements*. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. SFAS No. 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). The Company does not expect the adoption of SFAS No. 159 to have a material effect on the Company's financial condition or results of operations.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations* ("Statement 141R") which replaces Statement No. 141, *Business Combinations* ("Statement 141"). Statement 141R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (formerly referred to as purchase method) be used for all business combinations and that an acquirer be identified for each business combination. Statement 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as of the date that the acquirer achieves control. Statement 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. Statement 141R requires the acquirer to acquisition related costs and restructuring costs separately from the business combination as period expense. This Statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this statement will impact the accounting and reporting of acquisitions after January 1, 2008.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interest in Consolidated Financial Statements – an Amendment to ARB No 51* (“Statement 160”). Statement 160 establishes new accounting and reporting standards that require the ownership interests in the subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. Statement 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. In addition, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary shall be initially measured at fair value, with the gain or loss on the deconsolidation of the subsidiary measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Statement 160 also clarifies that changes in a parent’s ownership in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The Company is currently in the process of evaluating the impact of adopting Statement 160 on its financial statements.

Reclassifications

Certain information for 2006 and 2005 has been reclassified to conform to the financial presentation for 2007. Such reclassifications are not considered material and had no effect on net income or stockholders’ equity.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Intangible Assets

In 2002, the Company acquired CB&T Capital Corporation, a one-bank holding company, whose wholly-owned subsidiary was Citizens Bank & Trust Company in Louisville, Mississippi. In addition to the intangible assets related to the purchase of CB&T Capital Corporation, the Company recorded intangible assets from the purchase of branches located in Kosciusko, Scooba, Forest and Decatur, Mississippi along with the purchase of Three D Mortgage Company. The following table details the goodwill associated with each purchase, which is no longer being amortized.

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

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

Purchase	Total	Current Amortization Per Year	Life to Date Amortization	Unamortized
Decatur and Forest branches	\$2,487,574	\$ 352,812	\$2,237,879	\$ 249,695
CB&T Capital Corporation	1,846,909	184,691	1,031,191	815,718
Total core deposit intangible	<u>\$4,334,483</u>	<u>\$ 537,503</u>	<u>\$3,269,070</u>	<u>\$1,065,413</u>

Total amortization expense related to all intangible assets for the years ended December 31, 2007, 2006 and 2005 was \$537,503, \$537,503 and \$537,503, respectively. Estimated amortization expense attributable to core deposit intangible assets for the next five years is detailed in the table below. The Company has not added any intangibles during the last three years.

Year Ending December 31,	Amount
2008	\$434,386
2009	184,691
2010	184,691
2011	184,691
2012	76,954

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities

The amortized cost and fair value of investment securities at December 31, 2007 and 2006 are as follows:

<u>2007</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities available-for-sale				
Obligations of U.S. Government agencies	\$ 26,765,446	\$276,179	\$ —	\$ 27,041,625
Mortgage-backed securities	68,642,027	161,228	334,015	68,469,240
Other investments	150,002,722	537,537	1,330,757	149,209,502
Total	<u>\$245,410,195</u>	<u>\$974,944</u>	<u>\$1,664,772</u>	<u>\$244,720,367</u>

<u>2006</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities available-for-sale				
Obligations of U.S. Government agencies	\$ 11,935,669	\$ 21,078	\$ 243,627	\$ 11,713,120
Mortgage-backed securities	69,853,177	29,971	938,531	68,944,617
Other investments	93,661,364	1,043,934	745,886	93,959,412
Total	<u>\$175,450,210</u>	<u>\$1,094,983</u>	<u>\$1,928,044</u>	<u>\$174,617,149</u>

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006, in thousands.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

<u>December 31, 2007</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
<u>Description of Securities</u>						
Obligations of U. S. Government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage-backed securities	7,683	37	34,923	297	42,606	334
Other investments	11,857	334	28,659	997	40,516	1,331
Total	<u>\$19,540</u>	<u>\$ 371</u>	<u>\$63,582</u>	<u>\$ 1,294</u>	<u>\$83,122</u>	<u>\$ 1,665</u>

<u>December 31, 2006</u>	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
<u>Description of Securities</u>						
Obligations of U. S. Government agencies	\$ —	\$ —	\$10,761	\$ 244	\$ 10,761	\$ 244
Mortgage-backed securities	24,310	164	38,475	774	62,785	938
Other investments	7,085	164	26,070	582	33,155	746
Total	<u>\$31,395</u>	<u>\$ 328</u>	<u>\$75,306</u>	<u>\$ 1,600</u>	<u>\$106,701</u>	<u>\$ 1,928</u>

Mortgage-backed Securities. The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these investments are guaranteed either by the full faith and credit of the United States or by an agency of the United States Government and it is not expected that the securities would be settled at a price less than the amortized cost of the Company's investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2007 or 2006.

Other investments. The Company's unrealized loss on other investments relates to state, county and municipal bonds that have seen a decline in value due to changes in interest rates. It is not expected that these securities would be settled at a price less than amortized cost of the Company's investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2007 or 2006.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

The amortized cost and estimated fair value of securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Securities available-for-sale		
Due in one year or less	\$ 74,293,984	74,295,674
Due after one year through five years	11,584,994	11,659,854
Due after five years through ten years	32,128,595	32,250,254
Due after ten years	<u>127,402,622</u>	<u>126,514,585</u>
Total	<u>\$ 245,410,195</u>	<u>244,720,367</u>

Investment securities with carrying values of \$110,510,441 and \$107,357,331 at December 31, 2007 and 2006, respectively, were pledged as collateral for public deposits.

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

	2007	2006	2005
Gross realized gains	\$ 192,197	\$ 12,917	\$ —
Gross realized losses	<u>(162,858)</u>	<u>(25,235)</u>	—
	<u>\$ 29,339</u>	<u>\$(12,318)</u>	<u>\$ —</u>

Note 4. Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank of Dallas ("FHLB") system, owns stock in such organization. No ready market exists for the stock, and it has no quoted market value. The Company's investment in the FHLB is carried at cost of \$2,592,400 and \$3,301,100 at December 31, 2007 and 2006, respectively, and is included in other investments.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Loans

The composition of net loans at December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
	<u>(In Thousands)</u>	
Commercial, financial and agricultural loans	\$177,822	\$186,202
Real estate – construction loans	18,820	11,047
Real estate – mortgage loans	119,172	115,203
Consumer loans	<u>56,680</u>	<u>61,572</u>
	372,494	374,024
Unearned discount	(501)	(1,031)
Allowance for loan losses	<u>(3,968)</u>	<u>(3,712)</u>
Loans, net	<u>\$368,025</u>	<u>\$369,281</u>

Loans are made principally to customers in the Company's trade area. The Company's lending policy provides that loans collateralized by real estate are normally made with loan-to-loan value ratios of 80 percent or less. Commercial loans are typically collateralized by property, equipment, inventories and/or receivables with loan-to-value ratios from 50 percent to 80 percent. Real estate mortgage loans are collateralized by personal residences with loan-to-value ratios of 80 percent or less. Consumer loans are typically collateralized by real estate, vehicles and other consumer durable goods. Approximately \$50.7 million and \$58.4 million of the loans outstanding at December 31, 2007 and 2006, respectively, were variable rate loans.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

Changes in the allowance for loan losses at December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Balance, beginning	\$3,712,375	\$4,561,817	\$ 4,720,875
Provision for loan losses	784,120	(360,910)	1,084,326
Loans charged off	(886,798)	(780,040)	(1,567,186)
Recoveries of loans previously charged off	358,254	291,508	323,802
Balance, end of year	<u>\$3,967,951</u>	<u>\$3,712,375</u>	<u>\$ 4,561,817</u>

Loans on nonaccrual (impaired) status were \$1,441,251, \$1,628,651 and \$4,346,512 at December 31, 2007, 2006 and 2005, respectively. Allowance for loan losses attributable to the entire balance of nonaccrual (impaired) loans totaled \$149,972 and \$491,301 at December 31, 2007 and 2006, respectively. Interest income forgone on loans classified as nonaccrual (impaired) during the years ended December 31, 2007, 2006 and 2005 was \$102,452, \$122,706 and \$348,804, respectively.

Note 6. Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2007 and 2006:

	2007	2006
Land and buildings	\$15,977,762	\$13,635,092
Furniture, fixtures and equipment	10,666,590	9,758,542
	26,644,352	23,393,634
Less accumulated depreciation	12,355,555	11,287,178
Total	<u>\$14,288,797</u>	<u>\$12,106,456</u>

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 was \$1,068,377, \$950,340 and \$1,024,320, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Deposits

The composition of deposits is as follows:

	<u>2007</u>	<u>2006</u>
Non-interest bearing	\$ 78,224,936	\$ 82,867,220
NOW and money market accounts	144,302,273	152,988,036
Savings deposits	29,763,885	32,636,927
Time certificates, \$100,000 or more	101,806,688	76,352,424
Other time certificates	<u>123,134,522</u>	<u>127,002,649</u>
Total	<u>\$477,232,304</u>	<u>\$471,847,256</u>

The scheduled maturities of certificates of deposit at December 31, 2007 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$207,764,513
2009	10,946,552
2010	6,104,161
2011	77,634
2012	48,350
	<u>\$224,941,210</u>

Interest expense for certificates of deposit over \$100,000 was approximately \$4,193,000, \$2,902,000 and \$2,074,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Federal Home Loan Bank Advances

Pursuant to collateral agreements with the FHLB, advances are collateralized by all the Company's stock, FHLB securities (\$2,592,400 included in securities available-for-sale at December 31, 2007) and qualifying first mortgage and other loans. As of December 31, 2007, the balance in qualifying first mortgage and other loans was \$121,841,868. At December 31, 2007, advances from the FHLB, along with their rate and maturity date, consist of the following:

Advance Amount at December 31,		Interest Rate	Final Maturity
2007	2006		
\$ —	\$10,000,000	5.37	May 25, 2007
5,000,000	5,000,000	5.46	February 26, 2008
5,000,000	5,000,000	5.66	April 28, 2008
15,000,000	15,000,000	4.50	June 23, 2008
3,000,000	3,000,000	5.24	April 20, 2009
2,000,000	2,000,000	5.29	April 20, 2009
2,000,000	2,000,000	4.47	September 7, 2010
2,000,000	2,000,000	4.88	August 22, 2011
1,000,000	1,000,000	4.76	August 29, 2011
900,000	900,000	4.43	September 19, 2011
10,000,000	10,000,000	3.66	June 17, 2013
3,500,000	3,500,000	4.67	December 16, 2014
<u>\$49,400,000</u>	<u>\$59,400,000</u>		

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

Year Due	Payment
2008	\$25,000,000
2009	5,000,000
2010	2,000,000
2011	3,900,000
2012	—
Thereafter	<u>13,500,000</u>
	<u>\$49,400,000</u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Other Income and Other Expense

The following is a detail of the major income classifications that are included in other income under non-interest income on the income statement.

Other Income	2007	2006	2005
BOLI Insurance	\$ 714,601	\$ 553,477	\$ 485,890
Mortgage Loan Origination Fees	319,044	407,426	380,049
Other Income	<u>2,092,988</u>	<u>855,143</u>	<u>728,872</u>
Total Other Income	<u>\$3,126,633</u>	<u>\$1,816,046</u>	<u>\$1,594,811</u>

The following is a detail of the major expense classifications that comprise the other expense line item in the income statement.

Other Expense	2007	2006	2005
Intangible Amortization	\$ 537,503	\$ 537,503	\$ 537,503
Advertising	551,998	482,540	495,579
Office Supplies	576,358	515,958	559,442
Legal and Audit Fees	350,971	452,064	404,183
Telephone Expense	418,681	377,716	398,435
Other Expenses	<u>3,256,312</u>	<u>3,081,190</u>	<u>2,496,554</u>
Total Other Expense	<u>\$5,691,823</u>	<u>\$5,446,971</u>	<u>\$4,891,696</u>

Note 10. Income Taxes

The consolidated provision for income taxes consists of the following:

	2007	2006	2005
Currently payable			
Federal	\$1,971,014	\$2,559,846	\$2,250,896
State	<u>308,964</u>	<u>446,561</u>	<u>425,520</u>
	2,279,978	3,006,407	2,676,416
Deferred tax benefit	<u>(311,868)</u>	<u>(169,994)</u>	<u>(310,432)</u>
Income tax expense	<u>\$1,968,110</u>	<u>\$2,836,413</u>	<u>\$2,365,984</u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Continued

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

	2007	2006	2005
Federal taxes based on statutory rate	\$3,019,997	\$ 3,818,519	\$ 3,512,919
State income taxes, net of federal benefit	203,916	294,730	280,843
Tax-exempt investment interest	(940,489)	(1,070,432)	(1,067,853)
Other, net	(315,314)	(206,404)	(359,925)
Income tax expense	<u>\$1,968,110</u>	<u>\$ 2,836,413</u>	<u>\$ 2,365,984</u>

At December 31, 2007 and 2006, net deferred tax assets consist of the following:

	2007	2006
Deferred tax assets		
Allowance for loan losses	\$1,480,046	\$1,384,716
Deferred compensation liability	1,115,247	1,007,020
Unrealized loss on available-for-sale securities	257,306	310,732
Intangible assets	127,201	—
Other	72,191	67,728
Total	<u>3,051,991</u>	<u>2,770,196</u>
Deferred tax liabilities		
Premises and equipment	1,030,258	507,826
Intangible assets	—	13,713
Other	790,975	717,424
Total	<u>1,821,233</u>	<u>1,238,963</u>
Net deferred tax asset	<u>\$1,230,758</u>	<u>\$1,531,233</u>

The net deferred tax asset of \$1,230,758 and \$1,531,233 at December 31, 2007 and 2006, respectively, is included in other assets. The Company has evaluated the need for a valuation allowance related to the above deferred tax assets and, based on the weight of the available evidence, has determined that it is more likely than not that all deferred tax assets will be realized.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Continued

FASB Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"), was issued in June 2006 and defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. FIN 48 also provides guidance on the derecognition, measurement and classification for income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. The Company adopted the provisions of FIN 48, on January 1, 2007, and determined that there was no need to make an adjustment to retained earnings upon adoption of FIN 48. As of December 31, 2007, the Company has no unrecognized tax benefits related to federal and state income tax matters. If ultimately recognized, the Company does not anticipate any material increase in the effective tax rate during 2007 relative to any tax positions taken prior to January 1, 2007. As of December 31, 2007, the Company has not accrued for interest and penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file a consolidated U. S. federal income tax return. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2004 through 2007. The Company and its subsidiaries; state income tax returns are open to audit under the statute of limitations for the year ended December 31, 2004 through 2007.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Summarized Financial Information of Citizens Holding Company

Summarized financial information of Citizens Holding Company, parent company only, at December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005, is as follows:

Balance Sheets
December 31, 2007 and 2006

	2007	2006
Assets		
Cash (1)	\$ 955,232	\$ 1,783,950
Investment in bank subsidiary (1)	67,157,467	67,830,998
Other assets (1)	78,733	53,925
Total assets	<u>\$68,191,432</u>	<u>\$69,668,873</u>
Liabilities		
Other liabilities	\$ —	\$ 3,600
Stockholders' equity	<u>68,191,432</u>	<u>69,665,273</u>
Total liabilities and stockholders' equity	<u>\$68,191,432</u>	<u>\$69,668,873</u>

(1) Eliminates in consolidation.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Continued

Income Statements

Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Interest income	\$ 8,889	\$ 13,577	\$ 30,359
Other income			
Dividends from bank subsidiary (1)	6,251,760	3,498,167	3,265,783
Equity in undistributed earnings of bank subsidiary (1)	749,262	4,987,588	4,717,327
Total other income	7,009,911	8,485,755	7,983,110
Other expense	147,302	158,733	58,468
Income before income taxes	6,862,609	8,340,599	7,955,001
Income tax expense (benefit)	(51,625)	(53,925)	(11,131)
Net income	<u>\$6,914,234</u>	<u>\$8,394,524</u>	<u>\$7,966,132</u>

(1) Eliminates in consolidation.

Statements of Cash Flows

Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities			
Net income	\$6,914,234	\$ 8,394,524	\$ 7,966,132
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed earnings of Bank	(749,263)	(4,987,588)	(4,717,327)
Decrease in other assets	42,164	11,836	13,961
(Decrease) increase in other liabilities	(3,600)	1,200	(36,603)
Net cash provided by operating activities	<u>6,203,535</u>	<u>3,419,972</u>	<u>3,226,163</u>
Cash flows from investing activities			
Other	—	—	300,890
Net cash provided by investing activities	<u>—</u>	<u>—</u>	<u>300,890</u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Continued

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from financing activities			
Dividends paid to stockholders	\$(3,576,655)	\$(3,461,509)	\$(3,254,591)
Proceeds from exercise of stock options	26,555	311,160	131,595
Net cash used by financing activities	<u>(3,482,153)</u>	<u>(3,150,349)</u>	<u>(3,122,996)</u>
Net increase in cash	<u>(828,718)</u>	<u>269,623</u>	<u>404,057</u>
Cash, beginning of year	<u>1,783,950</u>	<u>1,514,327</u>	<u>1,110,270</u>
Cash, end of year	<u>\$ 955,232</u>	<u>\$ 1,783,950</u>	<u>\$ 1,514,327</u>

The Bank is required to obtain approval from state regulators before paying dividends. The Bank paid dividends of \$6,251,760, \$3,498,167 and \$3,265,783 to the Citizens Holding Company during the years ended December 31, 2007, 2006 and 2005, respectively.

Note 12. Related Party Transactions

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

The balance of loans made to related parties at December 31, 2007 and 2006 was \$309,044 and \$336,995, respectively. Advances to related parties during the year ended December 31, 2007 and 2006 totaled \$241,864 and \$193,308, respectively. Payments received from related parties during the year ended December 31, 2007 and 2006 totaled \$269,815 and \$212,011.

Deposits from related parties at December 31, 2007 and 2006 approximated \$3,239,609 and \$2,649,575, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentrations of Risks

Commitments to Extend Credit

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of its customers. These commitments and contingent liabilities include commitments to extend credit and issue standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. At December 31, 2007 and 2006, commitments related to unused lines of credit were \$27,293,147 and \$22,150,442, respectively, and standby letters of credit were \$437,918 and \$955,218, respectively. The fair value of such commitments is not materially different than stated values. As some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed credit worthiness of the borrower. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Interest Rate Risk

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

Legal Proceedings

The Company is party to lawsuits and other claims that arise in the ordinary course of business. The lawsuits assert claims related to the general business activities of the Company. The cases are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provision is made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. While management believes that the final resolution of pending legal proceedings will not have a material impact on the Company's financial position or results of operations, the final resolution of such proceedings could have such a material adverse effect.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Continued

Concentration of Risk

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

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

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

Note 14. Lease Commitment and Total Rental Expense

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

<u>Years Ending December 31,</u>	<u>Amounts</u>
2008	\$153,534
2009	151,531
2010	151,531
2011	142,816
2012	<u>125,600</u>
	<u>\$725,012</u>

The total rental expense included in the income statements for the years ended December 31, 2007, 2006 and 2005 is \$75,926, \$65,625, and \$63,398, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Benefit Plans

The Company provides its employees with a profit sharing and savings plan, which allows employees to direct a percentage of their compensation into a tax deferred retirement account, subject to statutory limitations. To encourage participation, the Company provides a 100 percent matching contribution for up to 6 percent of each participant's compensation, plus discretionary non-matching contributions. Employees are eligible after one year of service. For 2007, 2006 and 2005, the Company's contributions were \$558,340, \$523,270 and \$516,555, respectively.

Deferred Compensation Plans

The Company provides a deferred compensation plan covering its directors. Participants in the deferred compensation plan can defer a portion of their compensation for payment after attaining age 70. Life insurance contracts have been purchased which may be used to fund payments under the plan. Net expenses related to this plan were \$127,577, \$192,651 and \$144,158 for the plan years ended December 31, 2007, 2006 and 2005, respectively.

The Company has also entered into deferred compensation arrangements with certain officers that provide for payments to such officers or their survivors after retirement. Life insurance policies have been purchased which may be used to fund payments under these arrangements. The obligations of the Company under both the directors and officers deferred compensation arrangements are on a systematic basis over the remaining expected service period of the individual directors and officers.

Note 16. Regulatory Matters

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines involving quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total capital and Tier I capital to risk-weighted assets (as defined in the regulations) and Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007 and 2006, the most recent regulatory notification categorized the Bank as well capitalized. There have been no conditions or events that would cause changes to the capital structure of the Company since this notification. To continue to be categorized as well capitalized under the regulatory framework for prompt corrective action, the Company would have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed below, in comparison with actual capital amounts and ratios:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total Capital (to Risk-Weighted Assets)						
Citizens Holding Company	\$68,376,835	17.06%	\$32,066,762	8%	\$	N/A
Citizens Bank	67,342,869	16.80	32,058,795	8	40,073,493	10%
Tier I Capital (to Risk-Weighted Assets)						
Citizens Holding Company	64,408,884	16.07	16,033,381	4	N/A	—
Citizens Bank	63,374,918	15.81	16,029,397	4	24,044,096	6
Tier I Capital (to Average Assets)						
Citizens Holding Company	64,408,884	9.98	25,820,254	4	N/A	—
Citizens Bank	63,374,918	9.79	25,894,058	4	32,367,573	5

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk-Weighted Assets)						
Citizens Holding Company	\$70,618,305	18.32%	\$30,829,550	8%	\$	N/A —
Citizens Bank	68,795,198	17.85	30,825,236	8	38,531,545	10%
Tier I Capital (to Risk-Weighted Assets)						
Citizens Holding Company	66,905,930	17.36	15,414,775	4	N/A	—
Citizens Bank	65,082,824	16.89	15,412,618	4	23,118,927	6
Tier I Capital (to Average Assets)						
Citizens Holding Company	66,905,930	11.30	23,683,458	4	N/A	—
Citizens Bank	65,082,824	11.00	23,670,190	4	29,587,738	5

Note 17. Fair Values of Financial Instruments

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2007 and 2006:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	\$ 18,622,058	\$ 18,622,058	\$ 15,449,434	\$ 15,449,434
Interest bearing deposits with banks	612,938	612,938	396,811	396,811
Federal funds sold	900,000	900,000	15,200,000	15,200,000
Securities available-for-sale	244,720,367	244,720,367	174,617,419	174,617,419
Net loans	368,025,286	367,012,621	369,280,664	368,758,573
Accrued interest receivable	5,210,201	5,210,201	5,015,574	5,015,574
Financial liabilities				
Deposits	\$477,232,304	\$477,627,672	\$471,847,256	\$ 472,088,286
Federal Home Loan Bank advances	49,400,000	49,418,909	59,400,000	58,410,468
Accrued interest payable	1,915,232	1,915,232	1,153,890	1,153,890
Federal funds purchased	4,200,000	4,200,000	—	—
Sweep account liability	74,963,424	74,963,424	12,767,483	12,767,483

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Continued

Cash and Due from Banks and Interest Bearing Deposits with Banks

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

Securities Available-for-Sale

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Net Loans

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

Federal Funds Sold and Purchased; Sweep Account Liability

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

Deposits

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

Federal Home Loan Bank Borrowings

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

Off-Balance Sheet Instruments

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Stock Options

The Company has a directors' stock compensation plan and employees' long-term incentive plan. Under the directors' plan, the Company may grant options for up to 210,000 shares of common stock. The price of each option is equal to the market price determined as of the option grant date. Options granted are exercisable after 6 months and expire after 10 years. Under the employees' incentive plan, the Company may grant options for up to 7 percent of the total number of shares of common stock, which may be issued and outstanding. Incentive options must be granted within 10 years of the adoption of the plan and expire no later than 10 years from the grant date. The exercise price is equal to the market price of the Company's stock on the date of grant.

Following is a summary of the status of the plans for the years ending December 31, 2007, 2006 and 2005:

	Directors' Plan		Employees' Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2005	77,850	\$ 13.95	136,150	\$ 16.43
Granted		20.00	43,500	21.05
Exercised	(6,000)	14.66	(3,000)	14.55
Forfeited	—	—	(4,450)	17.24
Outstanding at December 31, 2005	83,850	\$ 14.77	172,200	\$ 17.60
Granted	12,000	23.70	40,500	23.46
Exercised	(4,500)	17.88	(6,450)	16.41
Forfeited	(1,500)	22.25	(9,450)	19.68
Outstanding at December 31, 2006	89,850	\$ 15.68	196,800	\$ 17.60
Granted	13,500	22.00	—	—
Exercised	(2,700)	7.15	(500)	14.50
Forfeited	—	—	(4,000)	20.22
Outstanding at December 31, 2007	<u>100,650</u>	<u>\$ 16.76</u>	<u>192,300</u>	<u>\$ 17.55</u>
Options exercisable at:				
December 31, 2007	<u>100,650</u>	<u>\$ 16.76</u>	<u>192,300</u>	<u>\$ 17.55</u>
Weighted average fair value of Options granted during years ended				
December 31, 2005		<u>\$ 1.48</u>		<u>\$ 1.56</u>
December 31, 2006		<u>\$ 6.10</u>		<u>\$ 5.87</u>
December 31, 2006		<u>\$ 6.23</u>		<u>\$ —</u>

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2007, 2006, and 2005

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Continued

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

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>	<u>Weighted Average Price</u>	<u>Weighted Average Life Remaining</u>
\$7.15 to \$10.00	12,150	\$ 7.30	1 years, 2 months
\$10.01 to \$15.00	107,300	13.39	4 years, 1 month
\$15.01 to \$20.00	24,000	18.20	6 years, 4 months
\$20.01 to \$22.50	99,000	21.61	7 years, 1 months
\$22.51 and above	50,500	23.52	8 years, 3 months
Total	<u>292,950</u>	<u>\$ 18.06</u>	<u>5 years, 10 months</u>

The intrinsic value of options granted under the Directors' Plan at December 31, 2007 was \$328,010 and the intrinsic value of the Employees' Plan at December 31, 2007 was \$344,356 for a total intrinsic value at December 31, 2007 of \$672,366. Additionally, the total intrinsic value of options exercised during 2007 and 2006 was \$32,040 and \$93,843, respectively. There was no unrecognized stock-based compensation expense at December 31, 2007.

OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2007, 2006 and 2005. In this discussion, all references to the activities, operations or financial performance of the Company reflect the Company's activities, operations and financial performance through its wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), unless otherwise specifically noted.

Over the past three years, the Company has experienced growth in total assets and deposits as management has capitalized on opportunities for organic growth within our market area. Total assets increased over the three-year period by \$93.7 million. In the three year period, earnings increased in 2005 and 2006 before decreasing in 2007. Higher costs for deposits and lower loan spreads from increased market competition caused the Company's net interest margin to compress in 2007. Even during this time of shrinking margins, management believes it has made appropriate provisions for loan losses although the improving loan portfolio quality has required smaller or negative provisions for loan losses.

During 2007, the Company's assets grew to \$680,903,631, or 9.6%, from 2006, loans decreased to \$368,025,286, or 0.3%, and deposits increased \$5,385,048, or 1.1%. Loans decreased in 2007 due to the repayment of several large loans in the portfolio. At the same time that demand and savings accounts decreased, certificates of deposit increased. Certificates of deposit ended 2007 at \$224,941,210, or 10.6%, higher than 2006. Demand, NOW, savings and money market accounts decreased \$16,201,089, or 6.0%, to \$252,291,094 at December 31, 2007.

During 2006, the Company's assets grew to \$621,197,496, or 1.0%, from 2005, loans decreased to \$369,280,664, or 1.5%, and deposits decreased \$1,964,978, or 0.4%. Loans decreased in 2006 due to the repayment of loans related to Hurricane Katrina rebuilding contracts that were made in the fourth quarter of 2005 and repaid in the first quarter of 2006 when the contracts were completed. Decreases in savings accounts and certificates of deposit were the primary reason for the decrease in deposits as they ended 2006 at \$2,051,725, or 0.9%, lower than 2005. Demand, NOW and money market accounts grew \$86,747, or 0.04%, to \$235,855,256 at December 31, 2006.

In 2005, the Company experienced growth in its assets and loans as compared to 2004 although the growth rate was less than in 2004. The Company's assets grew to \$607,709,136, or 3.5%, from 2004, loans increased to \$374,964,316, or 2.8%, and deposits decreased \$651,511, or 0.1%. Loans increased in 2005 due to the Hurricane Katrina rebuilding contracts. The decrease in savings accounts and certificates of deposit were the primary reason for the decrease in deposits as they ended 2005 at \$9,731,729, or 3.9% lower than 2004. Demand, NOW and money market accounts grew \$9,080,209, or 4.0% to \$235,768,509, at December 31, 2005 compared to the balance at December 31, 2004.

In 2007, the Company's net income after taxes decreased to \$6,914,234, a decrease of \$1,480,290 over 2006. The increase in the rates paid on deposits was a major cause of the decrease along with the additional costs related to the branch expansion expenses recorded in the fourth quarter. Net income for 2007 produced, on a fully diluted basis, earnings per share of \$1.39 compared to \$1.65 in 2006 and \$1.57 for 2005.

In 2006, the Company's net income after taxes increased to \$8,394,524, an increase of \$428,392 over 2005. The increase in the rates paid on deposits was offset by a negative provision for loan losses, which was due to an improvement in the credit quality of the loan portfolio.

The Company's net income after taxes for 2005 increased 5.6% to \$7,966,132, an increase of \$420,047 over 2004. Interest rates continued to rise in 2005, resulting in a higher cost of investible funds for the Company. This increase was offset by a corresponding increase in interest rates on loans and investments.

The Company's Return on Average Assets ("ROA") was 1.08% in 2007, compared to 1.39% in 2006 and 1.35% in 2005. Its Return on Average Equity ("ROE") was 10.26% in 2007, 12.59% in 2006 and 12.63% in 2005. During these periods, leverage capital ratios (the ratio of equity to average total assets) increased from 10.11% in 2005 to 11.30% in 2006 before decreasing to 9.98% in 2007. The decrease in ROE was the result of the Company's capital growing at a faster rate than its net income. The decrease in ROA was also a result of the Company's assets growing at a faster rate than its net income. The Company to increase the annual dividend payout rate to approximately 51.77% of 2007 earnings per share, as compared to 41.3% in 2006 and 40.9% in 2005. Even though the dividend payout ratio has increased, the leverage capital ratio was 9.98% in 2007, which is well above the regulatory requirement of 5% to be considered "well capitalized" under applicable Federal Deposit Insurance Corporation (the "FDIC") guidelines for the Bank.

CRITICAL ACCOUNTING POLICIES

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

The critical accounting policy most important to the presentation of our financial statements relates to the allowance for loan loss and the related provision for loan losses. The allowance for loan losses is available to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on a quarterly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 5, "Accounting for Contingencies". The collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under FASB Statement 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"). The balance of these loans determined to be impaired under SFAS No. 114 and their related allowance is included in management's estimation and analysis of the allowance for loan losses. For a discussion of other considerations in establishing the allowance for loan losses and our loan policies and procedures for addressing credit risk, please refer to the disclosures in this Item under the heading "Provision for Loan Losses and Asset Quality."

Prior to the adoption of FASB SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R", effective January 1, 2006), the Company accounted for stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). APB No. 25 did not require the Company to recognize compensation expense for stock options granted to employees if the option price was not less than the fair market value of the underlying stock at the grant date. Accordingly, the Company did not recognize compensation expense for the 55,500 and 57,000 options granted to employees and directors for 2005 and 2004, respectively. If the Company had applied the provisions of SFAS No. 123R for the options granted, the Company would have reported compensation expense of \$55,340 and \$201,610 for 2005 and 2004, respectively, with the decrease in volatility of our stock price used in calculating compensation expense being the primary reason for the decrease in expense from 2004 to 2005.

Generally, all options granted to employees and directors fully vest six months and one day after the date of grant, rather than vesting in tranches over a specified period. Effective January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective transition method. Under that method of transition, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. At the date of adoption, there were no unvested share-based payments outstanding. Also, given the limited historical amount of forfeited options, the Company has not reduced compensation expense for estimated forfeitures. The Company did not change the amount or terms of any outstanding option arrangements in anticipation of the adoption of SFAS No. 123R.

The Company utilizes the Black-Scholes valuation model to determine the fair value of stock options. The Black-Scholes model requires the use of certain assumptions, including the volatility of the Company's stock price (the Company has used the historical volatility in prior periods to determine the estimated compensation expense), the expected life of the option, the expected dividend rate and the discount rate. The Company does not currently expect to change the model or its methods for determining the assumptions underlying the valuation of future stock option grants. For more information on the Company's stock options and the assumptions used to calculate the expense of such options, please refer to Note 1, "Summary of Significant Accounting Policies," and Note 18, "Stock Options" to the Company's Consolidated Financial Statements included in this Annual Report.

Please refer to Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements of the Company included in this Annual Report for a detailed discussion of recent accounting pronouncements affecting the Company.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains statements which constitute forward-looking statements and information which are based on management's beliefs, plans, expectations, assumptions and on information currently available to management. The words "may," "should," "expect," "anticipate," "intend," "plan," "continue," "believe," "seek," "estimate," and similar expressions used in this report that do not relate to historical facts are intended to identify forward-looking statements. The Company notes that a variety of factors could cause its actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the business of the Company and the Bank, include, but are not limited to, the following:

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

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

SELECTED FINANCIAL DATA

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

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

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

	2007	2006	2005	2004	2003
Summary of Earnings					
Total Interest Income	\$ 38,100	\$ 36,487	\$ 33,044	\$ 29,972	\$ 29,725
Total Interest Expense	16,763	13,181	9,847	7,537	8,188
Provision for loan losses	784	(361)	1,084	1,067	2,003
Non-interest income	7,779	6,187	5,737	5,574	5,324
Non-interest expense	19,449	18,623	17,517	16,713	15,042
Income tax expense	1,968	2,836	2,366	2,683	2,845
Net Income	6,914	8,395	7,966	7,546	6,971
Per Share Data					
Earnings-basic	\$ 1.41	\$ 1.67	\$ 1.59	\$ 1.51	\$ 1.40
Earnings-diluted	1.39	1.65	1.57	1.49	1.39
Cash dividends	0.73	0.69	0.65	0.60	0.57
Book value at year end	14.02	13.88	12.73	12.04	11.35
Selected Year End Actual Balances					
Loans, net of unearned income	\$371,993	\$372,993	\$379,526	\$369,589	\$357,064
Allowance for loan losses	3,968	3,712	4,562	4,721	5,127
Securities available for sale	244,720	174,617	162,203	151,716	143,181
Earning assets	613,756	552,843	542,441	525,155	493,209
Total assets	680,904	621,197	614,827	587,239	550,761
Deposits	477,232	471,847	473,812	474,464	438,697
Long term borrowings	49,400	59,400	60,049	46,119	47,637
Shareholders' equity	68,191	69,665	63,774	60,191	56,502
Selected Year End Average Balances					
Loans, net of unearned income	\$358,178	\$373,729	\$371,925	\$364,922	\$337,763
Allowance for loan losses	3,688	4,162	4,646	5,532	4,495
Securities available for sale	201,620	160,537	156,333	142,994	164,371
Earning assets	575,262	527,891	528,562	506,898	499,726
Total assets	639,305	604,137	591,872	565,892	549,520
Deposits	480,191	469,460	464,629	457,510	447,188
Long term borrowings	54,634	59,608	54,823	41,607	35,314
Shareholders' equity	67,377	66,685	63,068	58,750	56,121
Selected Ratios					
Return on average assets	1.08%	1.39%	1.35%	1.33%	1.27%
Return on average equity	10.26%	12.59%	12.63%	12.84%	12.42%
Dividend payout ratio	51.77%	41.32%	40.86%	39.71%	40.71%
Equity to year end assets	10.01%	11.21%	10.49%	10.25%	10.26%
Total risk-based capital to risk-adjusted assets	17.06%	17.73%	16.20%	15.35%	14.94%
Leverage capital ratio	9.98%	11.30%	10.11%	9.72%	9.11%
Efficiency ratio	64.41%	60.05%	58.14%	57.65%	54.45%

NET OPERATING INCOME

Net operating income for 2007 decreased 17.6% to \$6,914,234, or \$1.41 per share-basic and \$1.39 per share-diluted, from the \$8,394,524, or \$1.67 per share basic and \$1.65 per share diluted for 2006. The provision for loan losses for 2007 was \$784,120 compared to the negative provision of \$360,910 in 2006. Non-interest income increased \$1,591,128, or 25.8%, and non-interest expense increased \$826,100, or 4.4%, in 2007. Non-interest income for 2007 increased due to an increase in dividends from investments related to a commercial sweep account program and non-interest expense increased mainly due to an increase in salaries and benefits. This increase in salaries and benefits is related to our new branches in Lauderdale and Oktibbeha counties and normal raises for our existing officers and employees.

Net operating income for 2006 increased 5.4% to \$8,394,524, or \$1.67 per share-basic and \$1.65 per share-diluted, from the \$7,966,132, \$1.59 per share basic and \$1.57 per share diluted for 2005. The provision for possible loan losses for the year ended 2006 was a negative provision of \$360,910 compared to the provision of \$1,084,326 in 2005. This negative provision was the result of improved loan quality, favorable loss experience and a decrease in loans outstanding. Non-interest income increased \$450,598 thousand, or 7.8%, and non-interest expense increased \$1,106,278, or 6.3%, for 2006.

Net operating income for 2005 increased 5.6% to \$7,966,132, or \$1.59 per share-basic and \$1.57 per share-diluted. The provision for possible loan losses for 2005 was \$1,084,326, an increase of \$16,883, or 1.6% from 2004. Non-interest income in 2005 increased \$162,292, or 2.9%, over 2004 non-interest income due to an increase in service charges and other fees received. Non-interest expense increased \$803,949, or 4.8% when compared to the same period in 2004. This increase was due mainly to a \$916,301, or 10.6% in salaries and benefits paid.

NET INTEREST INCOME

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

Net interest income on a tax equivalent basis was \$23,766,000, \$24,506,000 and \$24,373,000 for the years 2007, 2006 and 2005, respectively. Net interest margin was 4.34%, 4.55% and 4.61% for the same periods. During 2007, the yields on interest earning assets rose less than the rates paid on interest bearing deposits. The largest increase in rates paid was in the rates paid on certificates of

deposit. For the year ended December 31, 2007, the average yield on earnings assets was 7.15%, an increase of 18 basis points compared to the average yield at December 31, 2006. The average rate paid on interest-bearing liabilities was 3.38%, an increase of 40 basis points compared to the average rate at December 31, 2006. The volume of earning assets increased 1.4% while the volume of interest-bearing liabilities increased 3.0% in 2007.

For the year ended December 31, 2006, the average yield on earnings assets was 6.97%, an increase of 51 basis points compared to the average yield at December 31, 2005. The average rate paid on interest-bearing liabilities was 2.98%, an increase of 66 basis points compared to the average rate at December 31, 2005. The effect of increases in rates on net interest margin was offset partially by changes in volume. The volume of earning assets increased 2.1% while the volume of interest-bearing liabilities increased 0.3% in 2006.

During 2005, the rates on interest earning assets and interest bearing liabilities both rose such that the net interest margin in 2005 was unchanged from 2004. Both volume and rates increased on both interest bearing assets and liabilities. For the year ended December 31, 2005, the average yield on earnings assets was 6.46%, an increase of 37 basis points compared to the average yield at December 31, 2004. The average rate paid on interest-bearing liabilities was 2.22%, an increase of 46 basis points compared to the average rate at December 31, 2004. The volume of earning assets increased 4.6% while the volume of interest-bearing liabilities increased 3.2% in 2005.

During this three-year period, loan demand has remained steady and has allowed the Company to continue to invest its available funds in loans. Loans generally provide the Company with yields that are greater than the yields on typical investment securities.

During 2003, the Company purchased \$11.4 million of additional bank-owned life insurance. The income received by the Company on these policies increased the Company's total investment to approximately \$16.0 million at December 31, 2005, \$16.8 million at December 31, 2006 and \$17.7 million at December 2007. The additional purchases were made to provide a future funding source for certain of the Company's deferred compensation arrangements. Such insurance also offers more attractive yields than other investment securities.

Table 2 – Average Balance Sheets and Interest Rates sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the fiscal years ended December 31, 2007, 2006 and 2005.

TABLE 2 – AVERAGE BALANCE SHEETS AND INTEREST RATES

	Average Balance			Income/Expense			Average Yield/Rate		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Loans:									
Loans, net of unearned income	\$357,323	\$372,691	\$370,982	\$28,985	\$28,920	\$25,435	8.11%	7.76%	7.13%
Investment Securities									
Taxable	93,594	74,846	71,916	4,928	3,652	3,023	5.27%	4.88%	4.20%
Tax-exempt	76,803	84,019	80,728	4,247	4,709	4,564	5.53%	5.60%	5.65%
Total Investment Securities	170,397	158,865	152,644	9,175	8,361	7,587	5.38%	5.26%	4.97%
Federal Funds Sold and Other	19,976	8,825	5,891	1,021	407	180	5.11%	4.61%	3.06%
Total Interest Earning Assets	547,696	540,381	529,517	39,181	37,688	34,202	7.15%	6.97%	6.46%
Non-Earning Assets	91,609	63,756	62,355						
Total Assets	<u>\$639,305</u>	<u>\$604,137</u>	<u>\$591,872</u>						
Deposits:									
Interest-bearing Demand									
Deposits	\$149,111	\$144,348	\$144,134	\$ 2,805	\$ 2,528	\$ 2,098	1.88%	1.75%	1.46%
Savings	30,775	34,288	35,494	262	313	301	0.85%	0.85%	0.89%
Time	220,364	202,792	204,265	9,724	7,474	5,014	4.41%	3.69%	2.45%
Total Deposits	400,250	381,428	383,893	12,791	10,315	7,413	3.20%	2.70%	1.93%
Borrowed Funds									
Short-term Borrowings	1,892	1,106	2,344	96	60	84	5.07%	5.34%	3.58%
Long-term Borrowings	53,482	59,607	54,823	2,534	2,807	2,332	4.74%	4.64%	4.25%
Total Borrowed Funds	55,374	60,713	57,167	2,630	2,867	2,416	4.75%	4.72%	4.23%
Total Interest-Bearing Liabilities	455,624	442,141	441,060	15,421	13,182	9,829	3.38%	2.97%	2.22%
Non-Interest Bearing Liabilities									
Demand Deposits	79,187	87,396	80,737						
Other Liabilities	37,117	7,935	7,007						
Shareholders' Equity	67,377	66,665	63,068						
Total Liabilities and Shareholders' Equity	<u>\$639,305</u>	<u>\$604,137</u>	<u>\$591,872</u>						
Interest Rate Spread							<u>3.77%</u>	<u>4.00%</u>	<u>4.24%</u>
Net Interest Margin				<u>\$23,760</u>	<u>\$24,506</u>	<u>\$24,373</u>	<u>4.34%</u>	<u>4.55%</u>	<u>4.61%</u>
Less Tax Equivalent Adjustment				<u>1,081</u>	<u>1,201</u>	<u>1,177</u>			
Net Interest Income				<u>\$22,679</u>	<u>\$23,305</u>	<u>\$23,196</u>			

Table 3 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2007, 2006, and 2005.

TABLE 3 – NET AVERAGE INTEREST EARNING ASSETS

	2007	2006	2005
Average interest earning assets	\$547,696	\$540,381	\$529,517
Average interest bearing liabilities	455,624	442,141	441,614
Net average interest earning assets	\$ 92,072	\$ 98,240	\$ 87,903

Table 4 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2005 through 2007. Variances which were attributable to both volume and rate are allocated proportionately between rate and volume using the absolute values of each for a basis for the allocation. Non-accruing loans are included in the average loan balances used in determining the yields. Interest income on tax-exempt securities and loans has been adjusted to a tax equivalent basis using a federal income tax rate of 34%.

TABLE 4 – VOLUME/RATE ANALYSIS

	2007 Change from 2006			2006 Change from 2005		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$(1,246)	\$1,311	\$ 65	\$ 133	\$2,352	\$2,485
Taxable Securities	988	288	1,276	143	486	629
Non-Taxable Securities	(399)	(63)	(462)	184	(39)	145
Federal Funds Sold and Other	570	44	614	135	92	227
TOTAL INTEREST INCOME	\$ (87)	\$1,580	\$1,493	\$ 595	\$2,891	\$3,486
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 90	\$ 187	277	\$ 4	\$ 426	430
Savings Deposits	(30)	(21)	(51)	(10)	1	(9)
Time Deposits	775	1,475	2,250	(54)	2,514	2,460
Short-term borrowings	40	(4)	36	(67)	43	(24)
Long-term borrowings	(290)	17	(273)	225	250	475
TOTAL INTEREST EXPENSE	\$ 585	\$1,654	2,239	\$ 98	\$3,234	3,332
NET INTEREST INCOME	\$ (672)	\$ (74)	\$ (746)	\$ 693	\$6,125	\$6,818

LOANS

The loan portfolio constitutes the major earning asset of the Company and, in the opinion of management, offers the best alternative for maximizing net interest margin. The Company's loan personnel have the authority to extend credit under guidelines established and approved by the Board of Directors. Any aggregate credit that exceeds the authority of the loan officer is forwarded to the Board's loan committee for approval. The loan committee is composed of various directors, including the Chairman of the Board. All aggregate credits which exceed the loan committee's lending authority are presented to the full Board of Directors for ultimate

approval or denial. The loan committee not only acts as an approval body to ensure consistent application of the Company's loan policy but also provides valuable insight through communication and pooling of knowledge, judgment, and experience of its members.

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

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

Loan demand has weakened in the Company's market area over the past three years. In general, the change in loan demand experienced in 2007 and 2006 was due to a lack of growth in the market area served by the Company and increased competition from other financial institutions for the available loans. The impact on the housing market caused by the opening of a casino on the nearby Choctaw Indian Reservation in 1995 is beginning to show less of an impact in the area. The impact on the loan portfolio attributable to Hurricane Katrina rebuilding contracts has also lessened, as these loans were repaid in early 2006 as the rebuilding contracts were completed. Real estate mortgage loans originated by the Company increased by 3.5%, or \$3,968,856, in 2007, by 26.7%, or \$24,250,834, in 2006, and by 1.7%, or \$1,550,809, in 2005 compared to the prior year. The growth in mortgage loans in 2007 was the result of normal growth in our market area. Most of the increase in mortgage loans during 2006 is the result of 1-to-4 family rental property being reclassified from commercial loans to residential real estate. Prior to 2006, 1-to-4 family rental housing had been classified as commercial real estate instead of 1-to-4 family mortgages due to the business nature of the property. After a review of our collateral as part of its normal collateral verification process, The Federal Home Loan Bank of Dallas ("FHLB") advised that 1-to-4 family rental property should be classified as 1-to-4 family mortgages. This reclassification affected approximately \$20 million in commercial real estate loans.

Commercial and agricultural loans declined \$8,415,346, or 4.5% in 2007, and \$27,241,284, or 12.8%, in 2006 and increased \$12,019,676, or 6.0%, in 2005. Several large loans paid off in 2007, which were not replaced with other loans or renewals. The decrease in 2006 in this category of loans is a result of a transfer of loans from being classified as commercial loans to mortgage loans and reflected in the increase noted above. Commercial and agricultural loans are the largest segment of the loan portfolio and, by nature, bear a higher degree of risk. Management believes the lending practices, policies, and procedures applicable to this loan category are adequate to manage any risk represented by the growth of the loans in this category.

Consumer loans declined \$4,857,228, or 7.9% in 2007, declined \$6,140,000, or 9.1%, in 2006 and increased \$1,046,248, or 1.6%, in 2005, compared to the prior year. The Company believes that changes in consumer purchasing habits and the increase in loan sources have affected the growth of this segment of loans. Sustained low unemployment may also have lessened the dependence on consumer loans for some purchases.

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

TABLE 5 – LOANS OUTSTANDING

	AT DECEMBER 31,				
	2007	2006	2005	2004	2003
Commercial, financial and agricultural	\$177,787	\$186,202	\$213,444	\$201,424	\$186,950
Real estate – construction	18,821	11,047	8,779	10,706	15,409
Real estate – mortgage	119,172	115,203	90,952	92,503	92,412
Consumer	56,714	61,572	67,712	66,666	64,309
TOTAL LOANS	\$372,494	\$374,024	\$380,887	\$371,299	\$359,080

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

TABLE 6 – LOAN LIQUIDITY
LOAN MATURITIES AT DECEMBER 31, 2007

	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	Total
Commercial, financial and agricultural	\$ 88,549	\$ 76,003	\$13,235	\$177,787
Real estate – construction	16,281	2,540		\$ 18,821
Real estate – mortgage	20,233	73,599	25,340	\$119,172
Consumer	25,867	27,565	3,282	\$ 56,714
Total loans	\$150,930	\$179,707	\$41,857	\$372,494

SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$175,513	\$33,989
Variable rates	4,194	7,868
Total loans	\$179,707	\$41,857

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

PROVISION FOR LOAN LOSSES AND ASSET QUALITY

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

The allowance for loan losses is established through a provision for loan losses charged against net income. This expense is determined by a number of factors, including historical loan losses, assessment of specific credit weaknesses within the portfolio, assessment of the prevailing economic climate, and other factors that may affect the overall condition of the loan portfolio. Management utilized these factors to determine the provision for loan losses for each of 2005, 2006 and 2007. The ratio of net loans charged off to average loans was 0.15% in 2007, 0.13% in 2006 and 0.33% in 2005. These percentages are representative of normal loan charge-offs and are not the result of an economic downturn in any particular segment of the Company's market. Management evaluates the adequacy of the allowance for loan loss on a monthly basis and makes adjustments to the allowance based on this analysis.

The provision for loan losses in 2007 was \$784,120 compared to a negative provision of \$360,910 in 2006 and a provision of \$1,084,326 in 2005. The Company uses a model that takes into account historical charge-offs and recoveries and applies that to certain loan segments of our portfolio. At the end of 2007, the total allowance for loan losses was \$3,967,951, an amount that management believes to be sufficient to cover estimated probable losses in the loan portfolio.

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

TABLE 7 – ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

	2007	2006	2005	2004	2003
BALANCE AT BEGINNING OF YEAR	\$ 3,712	\$ 4,562	\$ 4,721	\$ 5,127	\$ 4,222
LOANS CHARGED-OFF					
Commercial, financial and agricultural	404	101	861	1,394	700
Real estate – construction	—	72	—	—	—
Real estate – mortgage	211	30	64	15	145
Consumer	272	577	642	390	555
TOTAL CHARGE-OFFS	<u>887</u>	<u>780</u>	<u>1,567</u>	<u>1,799</u>	<u>1,400</u>
CHARGE-OFFS RECOVERED					
Commercial, financial and agricultural	36	37	189	144	65
Real estate – construction	—	—	—	—	—
Real estate – mortgage	63	—	2	11	2
Consumer	259	254	133	171	235
TOTAL RECOVERIES	<u>358</u>	<u>291</u>	<u>324</u>	<u>326</u>	<u>302</u>
Net loans charged-off	529	489	1,243	1,473	1,098
Additions charged to operating expense	784	(361)	1,084	1,067	2,003
BALANCE AT END OF YEAR	<u>\$ 3,967</u>	<u>\$ 3,712</u>	<u>\$ 4,562</u>	<u>\$ 4,721</u>	<u>\$ 5,127</u>
Loans, net of unearned, at year end	\$371,993	\$372,993	\$379,526	\$369,589	\$357,064
Ratio of allowance to loans at year end	1.07%	1.00%	1.20%	1.28%	1.44%
Average loans – net of unearned	\$358,178	\$373,729	\$371,925	\$364,922	\$337,763
Ratio of net loans charged-off to average loans	0.15%	0.13%	0.33%	0.40%	0.33%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

	AT DECEMBER 31,				
	2007	2006	2005	2004	2003
Commercial, financial and agricultural	\$2,080	\$1,163	\$1,713	\$1,872	\$2,300
Real estate – construction	160	200	300	300	300
Real estate – mortgage	517	900	900	900	900
Consumer	1,211	1,350	1,550	1,550	1,550
Unallocated	—	99	99	99	77
Total	<u>\$3,968</u>	<u>\$3,712</u>	<u>\$4,562</u>	<u>\$4,721</u>	<u>\$5,127</u>

COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2007	2006	2005	2004	2003
Commercial, financial and agricultural	47.72%	49.79%	56.04%	54.25%	52.06%
Real estate – construction	5.05%	2.95%	2.30%	2.88%	4.29%
Real estate – mortgage	31.99%	30.80%	23.88%	24.91%	25.74%
Consumer	15.24%	16.46%	17.78%	17.96%	17.91%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

After peaking in 2005, loan balances outstanding have declined in the last two years, as our credit standards have tightened and loan demand has decreased. The table above illustrates that while we had growth in the mortgage real estate and construction real estate categories, we have shown declines in the other categories. The most significant portion of the growth occurred in the mortgage real estate category, primarily on account of the reclassification of certain loans into the mortgage real estate category, as discussed above. Notwithstanding this growth, a larger portion of the allowance for loan losses is allocated to commercial, financial and agricultural loans and consumer loans. This reflects the higher risks associated with commercial and consumer lending as compared to real estate mortgages and construction loans.

Non-performing assets and the relative percentages of such assets to loan balances are presented in Table 8 – Non-performing Assets. Non-performing loans include non-accrual loans, loans delinquent 90 days or more based on contractual terms and troubled debt restructurings (within the meaning of FASB Statement 15, “Accounting by Debtors and Creditors for Troubled Debt Restructurings”). Management classifies loans as non-accrual when it believes that collection of interest is doubtful. This typically occurs when payments are past due over 90 days, unless the loans are well secured and in the process of collection. Another measurement of asset quality is other real estate owned (OREO), which represents properties acquired by the Company through foreclosure following loan defaults by customers; the percentage of OREO to total loans at December 31, 2007 was 0.55% compared to 0.73% in 2006. OREO decreased in 2007 due to the sale of several parcels that were in other real estate.

Loans on non-accrual status amounted to \$1,441,251 in 2007 as compared to \$1,628,651 in 2006 and \$4,346,512 in 2005. Interest income forgone on loans classified as non-accrual in 2007 was \$102,452 as compared to \$122,706 in 2006 and \$348,804 in 2005. Upon the classification of a loan as non-accrual, all interest accrued on the loan prior to the time it is classified as non-accrual is reversed and interest accruals are suspended until such time that the loan is in compliance with its terms and/or deemed collectable.

TABLE 8 – NON-PERFORMING ASSETS

	AS OF DECEMBER 31,				
	2007	2006	2005	2004	2003
PRINCIPAL BALANCE					
Non-accrual	\$ 1,441	\$ 1,629	\$4,347	\$ 3,146	\$1,503
Accruing loans 90 days or more past due	526	1,355	911	904	4,396
Troubled debt restructuring	—	—	—	—	—
TOTAL LOANS	\$ 1,967	\$ 2,984	\$5,258	\$ 4,050	\$5,899
TOTAL NON-PERFORMING LOANS	\$ 1,967	\$ 2,984	\$5,258	\$ 4,050	\$5,899
Income on non-accrual loans not recorded	\$ 102	\$ 123	\$ 349	\$ 229	\$ 169
Non-performing as a percent of loans	0.53%	0.80%	1.39%	1.10%	1.65%
Other real estate owned	\$ 2,047	\$ 2,708	\$2,975	\$ 2,787	\$ 695
OREO as a percent of loans	0.55%	0.73%	0.78%	0.75%	0.19%
Allowance as a percent of non-performing loans	201.73%	124.40%	86.76%	116.57%	86.91%

SFAS Nos. 114 and 118, “Accounting by Creditors for Impairment of a Loan,” was effective January 1, 1995. These statements changed the methods of estimating the loan loss allowance for problem loans. In general, when management determines that principal and interest due under the contractual terms of a loan are not fully collectible, management must value the loan using discounted future expected cash flows. Management considers the Company’s nonaccrual loans as being impaired under FASB 114 and 118. The balances of nonaccrual (impaired) loans for the years 2007, 2006, 2005 were \$1,441,251, \$1,628,651 and \$4,346,512, respectively.

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

At December 31, 2007, loans totaling \$12,966,807 were included on the watch list of the Company compared to \$16,238,723 at December 31, 2006. The majority of these loans are real estate loans that, although adequately collateralized, have experienced frequent delinquencies in scheduled payments. The inclusion of loans on this list does not indicate a greater risk of loss; rather it indicates that the loan possesses one of the several characteristics described above warranting increased oversight by management.

SECURITIES

At December 31, 2007, the Company classified all of its securities as available-for-sale.

Securities available-for-sale are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. The Company does not hold any securities classified as held to maturity or held for trading purposes.

Table 9 – Securities and Securities Maturity Schedule summarizes the carrying value of securities from 2005 through 2007 and the maturity distribution at December 31, 2007, by classification.

TABLE 9 – SECURITIES

	2007	2006	2005
SECURITIES AVAILABLE FOR SALE			
U. S. Government Agencies	\$ 95,511	\$ 0	\$ 2,003
State, County and Municipal Obligations	77,072	11,713	11,972
Other Securities	72,137	93,959	98,076
TOTAL SECURITIES AVAILABLE FOR SALE	<u>\$244,720</u>	<u>\$174,617</u>	<u>\$169,321</u>

SECURITIES MATURITY SCHEDULE

	1 year or less		1 to 5 years		5 to 10 years		over 10 years	
	Actual Balance	Average Yield	Actual Balance	Average Yield	Actual Balance	Average Yield	Actual Balance	Average Yield
AVAILABLE-FOR-SALE								
U. S. Government Agencies (1)	\$ 0	0.00%	\$ 831	5.42%	\$10,002	5.50%	\$ 84,678	5.57%
State, County and Municipal (2)	2,158	5.34%	10,829	5.93%	22,248	6.08%	41,837	5.94%
Other Securities	72,137	4.26%	0	0.00%	0	0.00%	0	0.00%
TOTAL AVAILABLE-FOR-SALE	\$74,295	4.29%	\$11,660	5.89%	\$32,250	5.90%	\$126,515	5.69%

- (1) The maturities for the mortgage backed securities included in this line item are based on final maturity.
(2) Average rates were calculated on tax equivalent basis using a marginal federal income tax rate of 34% and a state tax rate of 5%.

The change in the carrying value of the available-for-sale portfolio is due to market value fluctuations resulting from the changing interest rate environment during 2007. This change is not used in the Tier 1 capital calculation.

As the above table illustrates, during the last three years, the Company shifted its investment mix away from lower-yielding U. S. Treasury securities into higher-yielding mortgage-backed securities issued by the Government National Mortgage Agency (“GNMA”) and other agencies of the federal government and higher-yielding securities issued by state and local entities. This move was done mainly to maintain a higher yield on investment securities than the Company could have attained with U. S. Treasury instruments. Also during 2007, the Company reduced its Federal Funds Sold by \$14,300,000 and invested these funds in higher yielding securities

DEPOSITS

The Company offers a wide variety of deposit services to individual and commercial customers, such as non-interest-bearing and interest-bearing checking accounts, savings accounts, money market deposit accounts, and certificates of deposit. The deposit base is the Company’s major funding source for earning assets. Time deposits increased in 2007, as the Company began to aggressively price time deposits to maintain its market share. During this time all other segments of deposits declined.

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

TABLE 10 – DEPOSIT INFORMATION

	2007		2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$ 78,225		\$ 87,396		\$ 80,183	
Interest-bearing demand	149,111	1.89%	144,348	1.75%	144,134	1.46%
Savings	29,764	0.85%	34,924	0.85%	36,048	0.83%
Certificates of deposit	224,941	4.41%	202,792	3.69%	204,265	2.45%
	<u>\$482,041</u>	<u>2.70%</u>	<u>\$469,460</u>	<u>2.20%</u>	<u>\$464,630</u>	<u>1.59%</u>

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

	AS OF DECEMBER 31, 2007
3 months or less	\$ 39,123
3 through 6 months	26,291
6 through 12 months	33,835
over 12 months	2,557
	<u>\$ 101,806</u>

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

BORROWINGS

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

TABLE 11 - SHORT-TERM BORROWINGS

	AS OF DECEMBER 31,		
	2007	2006	2005
Short-term borrowings			
Year-end balance	\$79,163	\$12,767	\$ 1,600
Weighted average rate	3.96%	4.71%	4.20%
Maximum month-end balance	\$79,163	\$50,682	\$12,600
Year to date average balance	\$31,916	\$20,796	\$ 2,344
Weighted average rate	4.43%	4.55%	3.54%

The Company borrows funds for short periods from the FHLB as an alternative to Federal Funds Purchased. The Company foresees short-term borrowings to be a continued source of liquidity and likely will continue to use these borrowings as a method to fund short-term needs. At December 31, 2007, the Company had the capacity to borrow up to \$139,341,868 from the FHLB and other financial institutions in the form of Federal Funds Purchased. The Company generally will use these types of borrowings if loan demand is greater than the growth in deposits. In 2007, the Company decreased its borrowings from the FHLB by \$10,000,000 and increased its Federal Funds Purchased by \$4,200,000. In 2007, the sweep account liability increased to \$74,963,424 from \$12,195,941, an increase of \$62,195,941, or 510%. This increase was the result of both additional accounts being opened and increased balances in the existing accounts.

The Company at the end of 2007 had long-term debt in the amount of \$49,400,000 to the FHLB for advances and \$1,018,273 payable to the State of Mississippi for advances under the Mississippi Agribusiness Enterprise Loan Program. This program provides interest-free loans to banks to fund loans to qualifying farmers. Farmers that qualify for the program receive 20% of their loan at zero interest. When the loan is repaid, the State of Mississippi receives 20% of the principal payment, which is equal to the amount advanced by the state; the Company retains the balance of the principal payment. The remaining maturity schedule of the long-term debt at December 31, 2007 is listed below.

	<u>2007</u>
Less than one year	\$25,010
One year to three years	11,008
Over three years	<u>14,400</u>
Total Long-term borrowings	<u>\$50,418</u>

NON-INTEREST INCOME AND EXPENSE

Table 12 – Non-interest Income and Expense illustrates the Company’s non-interest income and expense from 2005 through 2007 and percentage changes between such years.

TABLE 12 - NON-INTEREST INCOME & EXPENSE

	<u>2007</u>	<u>% CHANGE FROM '06</u>	<u>2006</u>	<u>% CHANGE FROM '05</u>	<u>2005</u>
NON-INTEREST INCOME					
Service charges on deposit accounts	\$ 3,860	1.15%	\$ 3,816	7.28%	\$ 3,557
Other operating income	<u>3,919</u>	<u>65.22%</u>	<u>2,372</u>	<u>8.81%</u>	<u>2,180</u>
TOTAL NON-INTEREST INCOME	<u>\$ 7,779</u>	<u>25.71%</u>	<u>\$ 6,188</u>	<u>7.86%</u>	<u>\$ 5,737</u>
NON-INTEREST EXPENSE					
Salaries and employee benefits	\$10,540	5.61%	\$ 9,980	4.80%	\$ 9,523
Occupancy expense, including equipment	3,217	6.88%	3,010	3.69%	2,903
Other operating expense	<u>5,692</u>	<u>1.05%</u>	<u>5,633</u>	<u>10.65%</u>	<u>5,091</u>
TOTAL NON-INTEREST EXPENSE	<u>\$19,449</u>	<u>4.44%</u>	<u>\$18,623</u>	<u>6.31%</u>	<u>\$17,517</u>

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

During 2007, non-interest income increased \$1,591,128, or 25.7%, when compared to year of 2006. Service charge income from checking accounts and an increase in dividends received from our sweep program assets were the main sources of this increase.

During 2006, non-interest income increased \$450,598, or 7.9%, when compared to year of 2005. Service charge income from checking accounts was the main source of this increase.

Non-interest expenses consist of salaries and benefits, occupancy expense and other overhead expenses incurred by the Company in the transaction of its business. In 2007, non-interest expense increased \$826,100, or 4.4%, to \$19,449,283. Included in this was an increase in salaries and benefits in the amount of \$559,474, or 5.6%.

In 2006, non-interest expenses increased \$1,106,278, or 6.3%, to \$18,623,183. The main reason for this increase was a \$456,969 increase in salaries and benefits. The remainder of the increase is the result of increased costs in losses on fraudulent checks and charged off checking accounts, building repair costs and normal other expense increases as a result of growth and inflation.

In 2007, the Company's efficiency ratio was 64.41%, compared to 60.05% in 2006 and 58.14% in 2005. The efficiency ratio is calculated to measure the cost of generating one dollar of revenue. This ratio is designed to reflect the percentage of one dollar which must be expended to generate one dollar of revenue. The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income, on a fully tax equivalent basis, and non-interest income. The increase in the efficiency ratio over the past three years reflects increases in non-interest expense associated with managing the growth in assets during the period.

INCOME TAXES

The Company records a provision for income taxes currently payable, along with a provision for deferred taxes to be realized in the future. Such deferred taxes arise from differences in timing of certain items for financial statement reporting rather than income tax reporting. The deferred tax amount of \$1,230,758 is considered realizable without the use of extraordinary tax planning strategies.

The Company's effective tax rate was 22.15%, 25.26% and 22.90% in 2007, 2006 and 2005, respectively. The major difference between the effective tax rate applied to the Company's financial statement income and the federal statutory rate of 34% is interest on tax-exempt securities and loans. Further tax information is disclosed in Note 10, "Income Taxes" to the Company's Consolidated Financial Statements included in this Annual Report.

LIQUIDITY AND RATE SENSITIVITY

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

The Company's predominant sources of funding include: core deposits (consisting of both commercial and individual deposits), proceeds from maturities of securities, repayments of loan principal and interest, Federal Funds Purchased, and short-term and long-term borrowing from the FHLB. In 2007, the Company experienced an increase in deposits and a smaller decline in loans outstanding. Since deposits increased and loans declined, the Company's dependence on long and short term borrowings to fund loan and security growth was reduced. As a result, the Company was able to reduce its balances in FHLB advances by \$10 million. The Company relies upon non-core sources of funding, such as Federal Funds Purchased and short and long term borrowings from the FHLB, when deposit growth is not adequate to meet its short term needs. While the strategy of using these wholesale funding sources is adequate to cover liquidity deficiencies in the short term, the Company's goal is to increase core deposits as a source of long term funding. Management does not intend to rely on borrowings from the FHLB as the first choice as a source of funds but prefers to increase core deposits through increased competition for available deposits. Management believes that core deposits can be increased by offering more competitive rates and superior service to our customers.

The deposit base is diversified between individual and commercial accounts, which the Company believes helps it avoid dependence on large concentrations of funds. The Company does not solicit certificates of deposit from brokers. The primary sources of liquidity on the asset side of the balance sheet are federal funds sold and securities classified as available-for-sale. The entire investment securities portfolio is classified in the available-for-sale category, and is available to be sold, should liquidity needs arise. Management, through its Asset Liability Committee ("ALCO"), and the Board review the Company's liquidity position on a monthly basis. At December 31, 2007, both the ALCO and the Board determined that the Company's liquidity position was adequate.

Table 13 – Funding Uses and Sources details the main components of cash flows for 2007 and 2006.

TABLE 13 - FUNDING USES AND SOURCES

	2007			2006		
	Average Balance	Increase/(decrease) Amount	Percent	Average Balance	Increase/(decrease) Amount	Percent
FUNDING USES						
Loans, net of unearned income	\$357,323	\$(12,244)	-3.31%	\$369,567	\$(2,358)	-0.63%
Taxable securities	93,594	20,424	27.91%	73,170	1,562	2.18%
Tax-exempt securities	76,803	(6,691)	-8.01%	83,494	2,360	2.91%
Federal funds sold and other	19,976	11,151	126.36%	8,825	2,934	49.80%
TOTAL USES	\$547,696	\$ 12,640	2.36%	\$535,056	\$ 4,498	0.85%
FUNDING SOURCES						
Noninterest-bearing deposits	\$ 79,187	\$(8,209)	-9.39%	\$ 87,396	\$ 7,213	9.00%
Interest-bearing demand and savings deposits	179,886	614	0.34%	179,272	(909)	-0.50%
Time Deposits	220,364	17,572	8.67%	202,792	(1,473)	-0.72%
Short-term borrowings	1,892	786	71.07%	1,106	(1,238)	-52.82%
Long-term debt	53,482	(6,126)	-10.28%	59,608	4,785	8.73%
TOTAL SOURCES	\$534,811	\$ 4,637	0.87%	\$530,174	\$ 8,378	1.61%

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

CAPITAL RESOURCES

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

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

During 2007, total capital decreased due to the implementation of a stock repurchase program and an increase in the ownership of the Company's subsidiary. The Company put a plan in place to purchase up to 250,000 shares of its stock on the open market. During 2007, this plan purchased 160,186 at a total cost of \$3,482,153. Also during 2007, the Company increased its ownership in The Citizens Bank of Philadelphia to 100% at a net cost of \$1,501,433. This decrease in capital was partially offset by earnings that were in excess of dividends.

Management believes the Company and the Bank meet all the capital requirements to be well-capitalized under the guidelines established by FDICIA as of December 31, 2007, as noted below in Table 14 – Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

TABLE 14 - CAPITAL RATIOS

	At December 31,		
	2007	2006	2005
Tier 1 capital			
Shareholders' equity	\$ 68,191	\$ 69,665	\$ 63,774
Less: Intangibles	(4,215)	(4,753)	(5,290)
Add/less: Unrealized loss/(gain) on securities	433	511	966
Add: Minority interest in equity accounts of unconsolidated subsidiaries	—	1,482	1,358
TOTAL TIER 1 CAPITAL	<u>\$ 64,409</u>	<u>\$ 66,905</u>	<u>\$ 60,808</u>
Total capital			
Tier 1 capital	\$ 64,409	\$ 66,905	\$ 60,808
Allowable allowance for loan losses	3,968	3,712	4,562
TOTAL CAPITAL	<u>\$ 68,377</u>	<u>\$ 70,617</u>	<u>\$ 65,370</u>
RISK WEIGHTED ASSETS	<u>\$400,835</u>	<u>\$398,397</u>	<u>\$403,497</u>
AVERAGE ASSETS (FOURTH QUARTER)	<u>\$645,506</u>	<u>\$592,086</u>	<u>\$601,607</u>
RISK BASED RATIOS			
TIER 1	<u>16.07%</u>	<u>16.79%</u>	<u>15.07%</u>
TOTAL CAPITAL	<u>17.06%</u>	<u>17.73%</u>	<u>16.20%</u>
LEVERAGE RATIOS	<u>9.98%</u>	<u>11.30%</u>	<u>10.11%</u>

Management's strategy with respect to capital levels is to maintain a sufficient amount of capital to allow the Company to respond to growth and acquisition opportunities in our service area. Over the past three years, the Company has been able to increase the amount of its capital, through retention of earnings, while still increasing the dividend payout ratio to approximately 51.77 % of earnings per share. The Company does not currently have any commitments for capital expenditures that would require the Company to raise additional capital by means other than retained earnings. The Company does not plan to change this strategy unless needed to support future acquisition activity.

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of its customers. These commitments and contingent liabilities include commitments to extend credit and issue standby letters of credit. These off-balance sheet arrangements are further detailed in Note 13, "Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentration of Risks," in the notes to the Company's Consolidated Financial Statements included in this Annual Report.

CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual obligations of the Company as of December 31, 2007. (amounts in thousands)

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Long-term Debt	\$49,400	\$25,000	\$7,000	\$3,900	\$13,500
Operating Leases	725	154	303	268	—
Other Long-term Liabilities	1,018	10	108	900	—
Total	<u>\$51,143</u>	<u>\$25,164</u>	<u>\$7,411</u>	<u>\$5,068</u>	<u>\$13,500</u>

Long-term debt obligations represent borrowings from the FHLB that have an original maturity in excess of one (1) year. Operating leases are primarily for a lease on one of the Bank's branches and other leases for mailing equipment. The branch lease is for 60 months and the equipment leases are for various terms. The other long-term liabilities are those obligations of the Company under the Agribusiness Enterprise Loan Program of the State of Mississippi.

Quantitative and Qualitative Disclosures about Market Risk

OVERVIEW

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

MARKET/INTEREST RATE RISK MANAGEMENT

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

The primary purpose in managing interest rate risk is to effectively invest capital and preserve the value created by the core banking business of the Company. The Company utilizes an investment portfolio to manage the interest rate risk naturally created through its business activities. The process of managing interest rate risk generally involves both reducing the exposure of the Company's net interest margin to swings in interest rates and concurrently ensuring that there is sufficient capital and liquidity to support balance sheet growth. The Company uses a quarterly interest rate risk report to evaluate its exposure to interest rate risk, project earnings and manage the composition of the balance sheet and its growth. This report utilizes an immediate 200 basis point rate movement up and down and measures the effect this change has on earnings and the value of equity.

In addition to the quarterly interest rate risk report, the Company employs a number of tools to measure interest rate risk. One tool is static gap analysis, which matches assets with specified maturities to liabilities with corresponding maturities. Although management believes that this does not provide a complete picture of the Company's exposure to interest rate risk, it does highlight significant short-term repricing volume mismatches. The following table presents the Company's rate sensitivity static gap analysis at December 31, 2007 (\$ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	\$ 178,311	\$ 84,151
Total rate sensitive liabilities	344,175	146,479
Net gap	<u>\$(165,864)</u>	<u>\$(62,328)</u>

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

Management believes that static gap analysis does not fully capture the impact of interest rate movements on interest sensitive assets and liabilities. Thus, the Company also measures interest rate risk by analyzing interest rate sensitivity and the rate sensitivity gap. Table 15 - Interest Rate Sensitivity provides additional information about the financial instruments that are sensitive to changes in interest rates. This tabular disclosure is limited by its failure to depict accurately the effect on assumptions of significant changes in the economy or interest rates or changes in management's expectations or intentions relating to the Company's financial statements. The information in the interest rate sensitivity table below reflects contractual interest rate pricing dates and contractual maturity dates. For indeterminate maturity deposit products (money market, NOW and savings accounts), the tables present principal cash flows in the shortest term. Although these deposits may not reprice within this time frame, the depositors of such funds have the ability to reprice. Weighted average floating rates are based on the rate for that product as of December 31, 2007 and 2006.

TABLE 15 – INTEREST RATE SENSITIVITY AS OF DECEMBER 31, 2007

	2008	2009	2010	2011	2012	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$139,042	\$44,119	\$48,148	\$42,734	\$7,160	\$ 28,427	\$309,630	\$308,618
Average Int Rate	7.84%	7.32%	7.56%	8.26%	7.41%	7.38%	7.73%	
Floating Rate	\$ 35,072	\$ 3,171	\$ 2,333	\$ 2,548	\$ 671	\$ 14,600	\$ 58,395	\$ 58,395
Average Int Rate	8.24%	8.45%	7.99%	8.68%	8.47%	8.66%	8.37%	
Investment securities								
Fixed Rate	\$ 74,295	\$ 1,593	\$ 2,121	\$ 7,731	\$4,998	\$153,982	\$244,720	\$244,720
Average Int Rate	4.31%	5.87%	6.31%	5.11%	6.01%	5.76%	5.31%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$373,216	\$ 4,474	\$ 866	\$ 56			\$378,612	\$379,008
Average Int Rate	3.25%	4.06%	3.89%	5.34%			3.26%	
Floating Rate	\$ 9,064	\$ 6,023	\$ 5,238	\$ 22	\$ 48		\$ 20,395	\$ 20,395
Average Int Rate	3.92%	3.53%	3.54%	3.54%	3.54%		3.71%	
Other int-bearing Liabilities								
Fixed Rate	\$ 25,000	\$ 5,000	\$ 2,000	\$ 3,900	\$ 0	\$ 13,500	\$ 49,400	\$ 49,419
Average Int Rate	4.92%	5.26%	4.47%	4.75%	0.00%	3.92%	4.65%	
Floating Rate								
Average Int Rate								

AS OF DECEMBER 31, 2006

	2007	2008	2009	2010	2011	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$ 93,932	\$41,597	\$44,024	\$48,114	\$42,585	\$ 34,609	\$304,861	\$368,759
Average Int Rate	8.09%	7.29%	7.33%	7.57%	8.28%	7.59%	7.76%	
Floating Rate	\$ 19,040	\$16,031	\$ 3,171	\$ 2,333	\$ 2,548	\$ 15,271	\$ 58,394	\$ 58,394
Average Int Rate	8.89%	7.47%	8.44%	7.99%	8.68%	8.68%	8.37%	
Investment securities								
Fixed Rate	\$ 1,417	\$ 2,173	\$ 3,200	\$ 6,820	\$ 6,737	\$137,259	\$157,606	\$157,606
Average Int Rate	5.91%	5.35%	5.22%	5.21%	5.73%	5.80%	5.76%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$344,640	\$23,621	\$ 196	\$ 168			\$368,625	\$368,915
Average Int Rate	1.85%	4.06%	4.28%	4.49%			1.99%	
Floating Rate	\$ 8,902	\$ 7,421	\$ 3,942	\$ 20	\$ 21		\$ 20,306	\$ 20,306
Average Int Rate	3.54%	3.54%	3.54%	3.54%	3.54%		3.54%	
Other int-bearing Liabilities								
Fixed Rate	\$ 10,000	\$25,000	\$ 5,000	\$ 2,000	\$ 3,900	\$ 13,500	\$ 59,400	\$ 58,410
Average Int Rate	5.37%	4.92%	5.26%	4.47%	4.75%	3.92%	4.77%	
Floating Rate								
Average Int Rate								

Rate sensitivity gap analysis is another tool management uses to measure interest rate risk. The rate sensitivity gap is the difference between the repricing of interest earning assets and the repricing of interest bearing liabilities within certain defined time frames. The Company's interest rate sensitivity position is influenced by the distribution of interest earning assets and interest-bearing liabilities among the maturity categories. Table 16—Rate Sensitivity Gap reflects interest earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2007. Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 16 – RATE SENSITIVITY GAP AT DECEMBER 31, 2007

	<u>1 - 90 Days</u>	<u>91 - 365 Days</u>	<u>1 - 5 Years</u>	<u>Over 5 years</u>	<u>Total</u>
INTEREST EARNING ASSETS					
Loans	\$ 89,263	\$ 71,344	\$172,997	\$ 32,500	\$366,104
Investment securities	87,535	12,807	43,820	97,466	241,628
Federal Home Loan Bank Account	613	—	—	—	613
Federal Funds Sold	900	—	—	—	900
TOTAL INTEREST BEARING ASSETS	\$ 178,311	\$ 84,151	\$216,817	\$129,966	\$609,245
INTEREST BEARING LIABILITIES					
Interest bearing demand deposits	\$ 130,868	\$ —	\$ —	\$ —	\$130,868
Savings and Money Market deposits	43,199	—	—	—	43,199
Time deposits	81,735	126,479	16,727	—	224,941
Federal Funds Purchased	4,200	—	—	—	4,200
Short term borrowings	79,163	—	—	—	79,163
Long term borrowings	5,010	20,000	11,908	13,500	50,418
TOTAL INTEREST BEARING LIABILITIES	\$ 344,175	\$ 146,479	\$ 28,635	\$ 13,500	\$532,789
Rate sensitive gap	\$(165,864)	\$ (62,328)	\$188,182	\$116,466	\$ 76,456
Rate sensitive cumulative gap	(165,864)	(228,192)	(40,010)	76,456	
Cumulative gap as a percentage of total earning assets	-27.22%	-37.45%	-6.57%	12.55%	

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

The above rate sensitivity analysis places interest-bearing demand and savings deposits in the shortest maturity category because these liabilities do not have defined maturities. If these deposits were placed in a maturity distribution representative of the Company's deposit base history, the shortfall of the negative rate sensitive gap position would be reduced in the 1-to-90 day time frame.

The rate sensitivity gap table illustrates that the Company had a large negative cumulative gap position for the one-year period ending December 31, 2007. This negative gap position was mainly due to: (1) the interest-bearing and savings deposits being classified in the 1-90 day category; (2) approximately 92.6% of certificates of deposit maturing during the next twelve months; and (3) a significant portion of the Company's loans maturing after one year.

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

Although short and medium term interest rates decreased in 2007 in connection with decreases in the target Federal Funds rate by the Federal Reserve Bank, the effect on the Company was marginal due to the lateness in the year of the reductions. The Company's net interest margin in 2007 was 4.34% and in 2006 was 4.55%.

Quarterly Financial Trends

	2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$9,445	\$9,560	\$9,620	\$9,475
Interest Expense	3,935	4,179	4,242	4,407
Net Interest Income	5,510	5,381	5,378	5,068
Provision for Loan Losses	77	80	396	231
Non-interest Income	1,639	1,908	2,023	2,208
Non-interest Expense	4,544	4,717	4,895	5,293
Income Taxes	638	632	362	336
Net Income	<u>\$1,890</u>	<u>\$1,860</u>	<u>\$1,748</u>	<u>\$1,416</u>
Per common share:				
Basic	\$ 0.38	\$ 0.38	\$ 0.36	\$ 0.29
Diluted	<u>\$ 0.37</u>	<u>\$ 0.37</u>	<u>\$ 0.36</u>	<u>\$ 0.29</u>
Cash Dividends	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.19
	2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$8,660	\$9,162	\$9,265	\$9,400
Interest Expense	2,965	3,283	3,425	3,508
Net Interest Income	5,695	5,879	5,840	5,892
Provision for Loan Losses	(129)	(63)	(111)	(58)
Non-interest Income	1,400	1,664	1,582	1,541
Non-interest Expense	4,643	4,724	4,657	4,599
Income Taxes	656	771	751	658
Net Income	<u>\$1,925</u>	<u>\$2,111</u>	<u>\$2,125</u>	<u>\$2,234</u>
Per common share:				
Basic	\$ 0.38	\$ 0.42	\$ 0.42	\$ 0.44
Diluted	<u>\$ 0.38</u>	<u>\$ 0.42</u>	<u>\$ 0.42</u>	<u>\$ 0.44</u>
Cash Dividends	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.18

Market Price and Dividend Information

MARKET PRICE

On November 16, 2006, the Company's common stock began trading on The NASDAQ Global Market ("NASDAQ") under the symbol "CIZN". Prior to that date, the stock was traded on the American Stock Exchange ("AMEX") under the symbol "CIZ". The stock began trading on the AMEX on October 19, 1999 and prior to that date was sold in private transactions between parties. On December 31, 2007, the common stock's closing price on NASDAQ was \$18.22. The following table sets forth the high and low sales prices for the common stock as reported on NASDAQ or AMEX, as applicable, as well as the dividends declared, in each quarter in the past two fiscal years.

<u>2006</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$24.20	\$22.25	\$ 0.17
April - June	24.00	22.15	0.17
July - September	22.75	21.40	0.17
October - December	22.75	21.32	0.18

<u>2007</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$22.50	\$20.77	\$ 0.18
April - June	22.95	20.00	0.18
July - September	23.00	19.10	0.18
October - December	22.00	18.00	0.19

On March 7, 2008, shares of our common stock were held of record by approximately 466 shareholders.

DIVIDENDS

Dividends totaled \$0.73 per share for 2007 compared to \$0.69 per share for 2006, an increase of 5.8%.

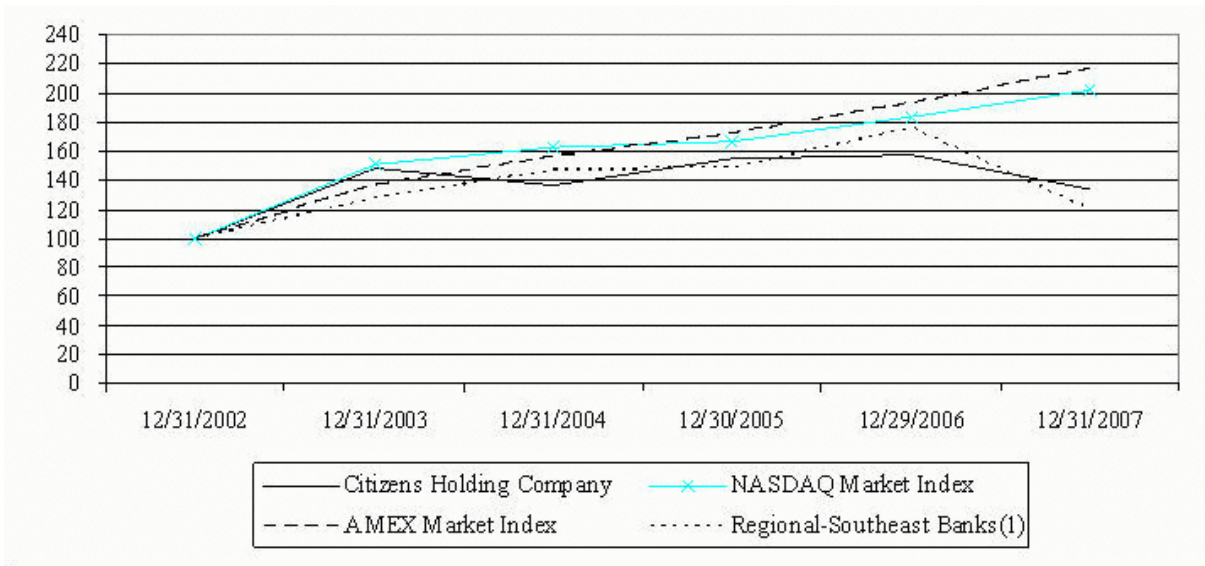
If funds are available, the Company typically declares dividends on a quarterly basis in March, June, September and December with payment following at the end of the month in which the dividend was declared. Funds for the payment by the Company of cash dividends are obtained from dividends, loans or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

STOCK PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's common stock to the AMEX Market Index, the NASDAQ Market Index and to a peer group of 49 other regional bank holding companies for the Company's reporting period. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 at December 31, 2002 and that all dividends were reinvested.

Although the Company's stock currently trades on the NASDAQ, this graph reflects a comparison to the AMEX Market Index in addition to the NASDAQ Market Index. This is due to the fact that the Company did not transfer the listing of its common stock to NASDAQ until November 2006. Thus, our stock has traded on both indexes during the period of this graph and we believe it is more appropriate to compare our stock's performance to both the AMEX Market Index and the NASDAQ Market Index.

Performance Graph December 31, 2002—December 31, 2007



	12/31/2002	12/31/2003	12/31/2004	12/30/2005	12/29/2006	12/31/2007
Citizens Holding Company	100.00	147.57	136.20	154.30	157.69	133.12
AMEX Market Index	100.00	136.11	155.86	171.89	192.45	216.06
NASDAQ Market Index	100.00	150.36	163.00	166.58	183.68	201.91
Regional-Southeast Banks	100.00	127.68	146.81	148.65	175.16	119.72

(1) The bank holding companies included in the peer group are as follows: Appalachian Bancshares, Auburn National Banc Inc., Bancorpsouth Inc., Banctrust Financial Group, Bank of the Ozarks Inc., Beach First National Bankshares, Britton & Koontz Capital Corporation, Cadence Financial Corp., CapitalSouth Bancorp, Cardinal Financial Corp., Centerstate Banks of Florida, Citizens First Corp., Colonial Bancgroup

CLA, Community National Bank Lake, Community Trust Bancorp Inc., Crescent Banking Company, Eastern Virginia Bankshares, Farmers Capital Bank Corporation, Fauquier Bancshares Inc., First Advantage Bancorp, First Bancshares Inc. (Mississippi), First Financial Service Corp, First Horizon National, First M&F Corporation, FNB Corporation (Florida), FNB Corporation (Virginia), FPB Bancorp Inc, Green Bancshares, Inc., Hancock Holding Co., Heritage Financial Group, Iberiabank Corporation, Midsouth Bancorp Inc, NB&T Financial Group, Nexity Financial Corp, Pinnacle Financial Partners, Porter Bancorp, Inc., Premier Financial Bancorp, Regions Financial Corp., Renasant Corporation, Republic Bancorp Inc. CLA, S.Y. Bancorp Inc., Security Bank Corp, Simmons First National Corp., Southcoast Financial Corp, Superior Bancorp, Tennessee Commerce Banc, Trustmark Corp., United Security Bancshares, and Whitney Holding Corporation.

Source: Hemscott, Richmond Virginia

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

THE CITIZENS BANK OFFICERS

Greg McKee
President and CEO

Danny Hicks
Senior Vice President

Robert T. Smith
Senior Vice President and CFO

Erdis Chaney
Vice President & Senior Deposit Officer

Tim Lofton
Vice President and CIO

Randy Cheatham
Vice President

Mike Guthrie
Vice President and Senior Credit Officer

Murray Johnson
Vice President

Jackie Hester
Vice President and Marketing

Kaye Johnson
Vice President

Stanley Salter
Vice President

Darrell Bates
Vice President

Jean T. Fulton
Vice President and Internal Auditor

Gayle Sharp
Vice President

Brad Copeland
Vice President

Mark Majure
Vice President

Vicki Brown
Vice President and Compliance Officer

Mark Taylor
Vice-President and Human Resources

Bob Posey
Vice President

Sommer Vick
Assistant Vice President

Carolyn K. McKee
Student Loan Officer

Beth Branning
Assistant Vice President

Tommy Jackson
Assistant Vice President

Pat Stokes
Assistant Cashier

Adriana Burt
Assistant Cashier

Mitch Peden
Data Processing Officer

Tammy Pope
Accounting Officer

Mark Flake
Data Processing Officer

Barbara Lewis
Assistant Cashier

Greg Jackson
Accounting Officer

Patsy Smith
Assistant Cashier

Ashley Peebles
Assistant Cashier

Deborah Ladd
Item Processing Officer

Linda Goforth
Electronic Banking Officer

Patti Rickles
ACH Officer

Juane Kirkland
Security Officer

Carthage Branch

Mike Brooks
President

Billy Cook
Vice President

Margaret Thompson
Assistant Cashier

Sebastopol Branch

Linda Bennett
President

Connie Comans
Assistant Cashier

Union Branch

Robert C. Palmer, Jr.
President

Karen Foster
Assistant Vice President

Kosciusko Branch

Charlie Hudson
President

David Blair
Vice President

Joanne Sanders
Assistant Cashier

Scoba and DeKalb Branches

Fran Knight
President

Meridian Branch

Charles Young
President

Vikki Gunter
Assistant Vice President

Forest Branch

Richard Latham
Vice President

Dymply Winstead
Assistant Vice President

Decatur Branch

Ken Jones
Vice President

Louisville Branch

Terry Woods
President

Marion Gardner
Assistant Cashier

Bruce Lee
Assistant Vice President

Starkville Branch

Stan Acy
Vice-President

Charlie Douglas
Vice-President

Rhonda Edmondson
Assistant Cashier

Collinsville Branch

Mike Shelby
Vice-President

Meridian Mid-Town

Jackie Long
Vice-President

Frances Garrett
Assistant Vice President

Meridian Broadmoor

Camp Keith
Assistant Cashier

Mortgage Loan Department

Linda Stribling
Mortgage Loan Officer

BOARD OF DIRECTORS

Don Fulton
President & General Manager
Nemanco, Inc.

Donald L. Kilgore
Attorney General
Mississippi Band of Choctaw Indians

David A. King
Proprietor
Philadelphia Motor Company

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

Adam Mars
Business Manager
Mars, Mars, Mars & Chalmers

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

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

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

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

Terrell E. Winstead
Chief Financial Officer
Molpus Woodlands Group

CITIZENS HOLDING COMPANY OFFICERS

William M. Mars
Chairman

Greg L. McKee
President and CEO

Carolyn K. McKee
Secretary

Robert T. Smith
Treasurer and Chief Financial Officer

BANKING LOCATIONS**Philadelphia Main Office**

521 Main Street
Philadelphia, MS 39350
601.656.4692

Westside Branch

912 West Beacon Street
Philadelphia, MS 39350
601.656.4978

Northside Branch

802 Pecan Avenue
Philadelphia, MS 39350
601.656.4977

Eastside Branch

585 East Main Street
Philadelphia, MS 39350
601.656.4976

Pearl River Branch

110 Choctaw Town Center
Philadelphia, MS 39350
601.656.4971

Union Branch

502 Bank Street
Union, MS 39365
601.774.9231

Carthage Main Office

219 West Main Street
Carthage, MS 39051
601.257.4525

Starkville Branch

201 Highway 12
Starkville, MS 39759
662.323.1420

Collinsville Branch

9065 Collinsville Road
Collinsville, MS 39325
601.626.7608

Madden Branch

Highway 488
Madden, MS 39109
601.267.7366

Sebastopol Branch

24 Pine Street
Sebastopol, MS 39359
601.625.7447

DeKalb Branch

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

Kosciusko Branch

775 North Jackson Street
Kosciusko, MS 39090
662.289.4356

Scooba Branch

1048 Johnson Street
Scooba, MS 39358
662.476.8431

Meridian Eastgate

1825 Hwy 39 North
Meridian, MS 39301
601.693.8367

Phone Teller

1.800.397.0344

Decatur Branch

15330 Hwy 15 South
Decatur, MS 39327
601.635.2321

Forest Branch

247 Woodland Drive North
Forest, MS 39074
601.469.3424

Louisville Branch

100 East Main Street
Louisville, MS 39339
662.773.6261

Noxapater Branch

45 East Main Street
Noxapater, MS 39346
662.724.4261

Industrial Branch

803 South Church Street
Louisville, MS 39339
662.773.6261

Meridian Mid-Town

905 22nd Avenue
Meridian, MS 39301
601.482.8858

Meridian Broadmoor

5015 Highway 493
Meridian, MS 39305
601.581.1541

Internet Banking

<http://www.thecitizensbankphila.com>

FINANCIAL INFORMATION

CORPORATE HEADQUARTERS

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

601.656.4692

ANNUAL STOCKHOLDER MEETING

The Annual Stockholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 22, 2008, at 4:30P.M. in the lobby of the main office of The Citizens Bank, 521 Main Street, Philadelphia, Mississippi.

STOCK REGISTRAR AND TRANSFER AGENT

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

FORM 10-K

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

FINANCIAL CONTACT

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

Additional information can be obtained from our corporate website at www.citizensholdingcompany.com

Exhibit 21 – Subsidiaries of the Registrant

The following is a list of subsidiaries of the Company:

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>	<u>Approximate Percentage of Voting Securities Owned</u>
The Citizens Bank of Philadelphia, Mississippi	Mississippi	100%
New South Life Insurance Company	Mississippi	25%

[HORNE LLP LETTERHEAD]

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report on Form 10-K of Citizens Holding Company for the year ended December 31, 2007 and in the Registration Statement on Form S-8 (No. 333-89680) of Citizens Holding Company of our reports dated March 7, 2008, related to our audit of the consolidated financial statements and internal control over financial reporting which appear in the 2007 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Citizens Holding Company for the year ended December 31, 2007.

/s/ HORNE LLP
Jackson, Mississippi
March 10, 2008

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Greg L. McKee, certify that:

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

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

Date: March 7, 2008

by: /s/ Greg L. McKee
Greg L. McKee
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert T. Smith, certify that:

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

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

Date: March 7, 2008

by: /s/ Robert T. Smith
Robert T. Smith
Chief Financial Officer

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

In connection with the Annual Report on Form 10-K of The Citizens Holding Company (the "Company") for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg L. McKee, Chief Executive Officer of the Company, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 7, 2008

by: /s/ Greg L. McKee

Greg L. McKee
Chief Executive Officer

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

In connection with the Annual Report on Form 10-K of The Citizens Holding Company (the "Company") for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert T. Smith, Chief Financial Officer of the Company, certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 7, 2008

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer