

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017

or

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

For the transition period from _____ to _____

Commission file number: 001-15375

CITIZENS HOLDING COMPANY

(Exact Name of Registrant as Specified in Its Charter)

MISSISSIPPI
(State or Other Jurisdiction of
Incorporation or Organization)

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

64-0666512
(IRS Employer
Identification Number)

39350
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.20 par value	NASDAQ Global Market

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

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, a non-accelerated filer, or a smaller reporting company. See the definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

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

As of June 30, 2017, the aggregate market value of the registrant's common stock, \$.20 par value, held by non-affiliates of the registrant was \$115,500,424 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, 2017).

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

<u>Class</u>	<u>Outstanding at March 8, 2018</u>
Common stock, \$.20 par value	4,894,705 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2017 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 2018 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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on management's beliefs, plans, expectations, assumptions and on information currently available to management. The words "may," "should," "expect," "anticipate," "intend," "plan," "continue," "believe," "seek," "estimate" and similar expressions used in this report that do not relate to historical facts are intended to identify forward-looking statements. These statements appear in a number of places in this report, including, but not limited to, statements found in Item 1, "Business," and in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Citizens Holding Company (the "Company") notes that a variety of factors could cause its actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the business of the Company and the Company's wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), include, but are not limited to, the following:

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

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The Company undertakes no obligation to update or revise any forward-looking statements subsequent to the date on which they are made. Please also refer to Item 1A, “Risk Factors,” for a detailed discussion of the risks related to the Company, the Bank in particular, and the banking industry generally.

Except as otherwise indicated herein, the information presented in this Annual Report on Form 10-K is as of March 15, 2018.

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ITEM 1. BUSINESS.

BACKGROUND

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

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, 2017, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of \$992.744 million and total deposits of \$723.055 million. For more information regarding the assets, revenue and profits of the Company, refer to the Consolidated Financial Statements of the Company contained in Item 8, “Financial Statements and Supplementary Data.” The Company’s only reportable segment is the assets and cash flow of the Bank, resulting in revenues of \$38,696,252, operating profit of \$4,123,243 and total assets of \$992,743,682 for the Company as of December 31, 2017.

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 48.3% of gross revenues in 2017, 50.2% in 2016 and 51.0% in 2015. Loan demand has improved but increased competition that results in lower loan yields along with an increased investment portfolio have caused this percentage to decline over the last three years. Such lending activities include commercial, real estate, installment (direct and indirect) and credit card loans. The Company’s primary lending area is East Central and South Mississippi, specifically Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Harrison, Jackson, Winston and Kemper counties and contiguous counties. In 2008, the Company entered the southern Mississippi market with the opening of a branch office in Hattiesburg, Mississippi, which is located in Lamar County. In 2009, the Company opened a Loan Production Office (“LPO”) in Biloxi, Mississippi to serve the Mississippi Gulf Coast and in April 2014 converted this office to a full service branch and at the same time opened another branch in Biloxi. In 2011, the Company opened a branch in

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Flowood, Mississippi. In December 2016, the Company opened a LPO in Oxford, Mississippi to offer commercial loans to the people in North Mississippi. On a very limited basis, the Company extends out-of-area credit only to borrowers who are considered to be low risk, as defined within the Bank's lending policy. The Company is not dependent upon any single customer or small group of customers, and it has no foreign operations.

The Company's market area is mainly rural, with Hattiesburg, population 50,233, Biloxi, population 50,644, and Meridian, population 38,314, being the largest markets. 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. Its schools, manufacturing plants and 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 2,400 people within the Company's market. For more information regarding revenue from external customers for the last three fiscal years, attributed by geographic region, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in the Company's Annual Report and attached as an exhibit hereto.

The Company has historically made, and intends to continue to make, most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction, and commercial real estate loans. At December 31, 2017, approximately 81.5% of the Company's loan portfolio was attributed to real estate lending, 14.6% of the Company's loan portfolio was comprised of commercial, industrial and agricultural production loans, and consumer loans made up the remaining 3.9% of the Company's total loan portfolio.

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

All loans in the Company's portfolio are subject to risk based on the state of both the local and national economy. The local economy has weathered the recent downturn in the national economy with a minimum effect on employment and production. It is still uncertain how the weakness in the local, state and national economy will affect the Company in the future.

Through such products 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.

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EXECUTIVE OFFICERS OF THE COMPANY

Greg L. McKee, 56, 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, 66, 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 compensation is paid by the Bank. At December 31, 2017, the Bank employed 241 full-time employees and 24 part-time employees. The Bank is not a party to any collective bargaining agreements, and employee relations are considered to be good.

SUPERVISION AND REGULATION

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

General.

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

Financial Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, ("Dodd-Frank Act") made extensive changes in the regulation of financial institutions. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based, a number of which still have not been implemented. It is

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anticipated that these rules and enforcement by the Bank's regulators will continue to evolve through regulatory amendments, informal interpretations, and enhanced enforcement in the future. Congress and the President have announced proposed reforms and changes to the Dodd-Frank Act, and it is uncertain how the Dodd-Frank Act provisions may be modified or the ultimate impact any such modifications may have to our business operations.

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, 2017, the Company's ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items was 18.51%, and its ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items was 17.93%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 4%. The Company's leverage ratio at December 31, 2017 was 9.17%.

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

Beginning January 1, 2015, the Bank began to comply with the Basel III rules, although the rules will not be fully phased-in until January 1, 2019. Among other things, the final Basel III rules will impact regulatory capital ratios of banking organizations in the following manner, when fully phased in:

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

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

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

Management believes that, as of December 31, 2017, the Company and the Bank would meet all capital adequacy requirements under Basel III and the banking agencies' proposals on a fully phased-in basis if such requirements were currently effective. Management will continue to monitor these and any future proposals submitted by the Company's and Bank's regulators.

Prompt Corrective Action and Other Enforcement Mechanisms.

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

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.

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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, 2017, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was approximately \$81.5 million, or 95.0% 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, 2017, the maximum amount available for transfer from the Bank in the form of loans was \$8.5 million, or 10% of the Bank's consolidated net assets. The Bank does not have any outstanding loans with the Company.

FDIC Insurance Assessments.

The FDIC maintains the Deposit Insurance Fund ("DIF") by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the DIF. The Dodd-Frank Act permanently raised the FDIC insurance coverage limit per depositor to \$250,000. On May 20, 2016, the FDIC amended its rule to refine the deposit insurance assessment system for small insured depository institutions that have been federally insured for at least five years that became effective on July 1, 2016. The deposit insurance assessment system is mandated by the Dodd-Frank Act. The rule, which applies to banks with less than \$10 billion in assets, would take effect when the Deposit Insurance Fund reaches 1.15% of insured deposits. FDIC released a statement confirming that as of second quarter of 2016, our DIF reserve ratio had reached 1.17%. As a result, the calculation adopted in the final rule for Small Bank FDIC Assessments was reflected in the third quarter of 2016 accruals. The assessment rate schedule was also revised to a range of 3 to 30 basis points annually, and fully adjusted rates will range from 1.5 to 40 basis points annually.

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.

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

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

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

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

Community Reinvestment Act.

The CRA requires the assessment by the appropriate regulatory authority of a financial institution’s record in meeting the credit needs of the local community, including low and moderate-income neighborhoods. The regulations promulgated under CRA emphasize an assessment of actual performance in meeting local credit needs, rather than of the procedures followed by a bank to 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 July 12, 2016 for its performance under the CRA. The Bank was rated Satisfactory during this examination. No discriminatory practices or illegal discouragement of applications were found.

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Consumer Protection.

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

Anti-Money Laundering Efforts.

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

Corporate Governance.

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

The Dodd-Frank Act mandated a number of new requirements with respect to corporate governance. The legislation requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions. The Dodd-Frank Act also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion, regardless of whether the company is publicly traded. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

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Impact of Monetary Policies.

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

Future Legislation

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

COMPETITION

The banking business is highly competitive. The Company's market consists principally of Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lafayette, Lauderdale, Oktibbeha, Rankin, Harrison, Jackson, Winston and Kemper and contiguous counties in Mississippi. In 2008, the Company entered the southern Mississippi market with the opening of a branch office in Hattiesburg, Mississippi, which is located in Lamar County, and in 2009, opened a loan production office in Biloxi, Mississippi, which in April 2014, was converted into a full service branch. In 2011, the Company opened a branch in Flowood, Mississippi. In 2014, the Company established an additional branch in Biloxi to better serve the Gulf Coast. In 2016, the Company entered North Mississippi with the establishment of a loan production office in Oxford, Mississippi. The Company competes with local, regional and national financial institutions in these counties and in surrounding counties in Mississippi in obtaining deposits, lending activities and providing many types of financial services. The Company also competes with larger regional banks for the business of companies located in the Company's market area.

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

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Changes in federal and state law have resulted in, and are expected to continue to result in, increased competition. The reductions in legal barriers to the acquisition of banks by out-of-state bank holding companies resulting from implementation of the Dodd-Frank Act and other 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 thirty different financial institutions in the Company's market competing for the same customer base. According to the FDIC's Summary of Deposits that is collected as of June 30 each year, the Company's market share in its market area was approximately 5.67% at June 30, 2017. The Company competes in its market for loan and deposit products, along with many of the other services required by today's banking customer, on the basis of availability, quality and pricing. The Company believes it is able to compete favorably in its markets, in terms of both the rates the Company offers and the level of service that the Company provides to its customers.

AVAILABILITY OF INFORMATION

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments thereto, along with other information about the Company, are available, free of charge, on our website, <http://www.citizensholdingcompany.com>. The information contained on our website is not incorporated into this report. Upon request, the Company will provide to any record holder or beneficial holder of its shares a copy of such reports without charge. Requests should be made to 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 report and the exhibits hereto, the following risk factors should be considered carefully in evaluating the Company's business. The risks disclosed below, either alone or in combination, could materially adversely affect the business, prospects, financial condition or results of operations of the Company and/or the Bank. Additional risks not presently known to the Company, or that the Company currently deems immaterial, may also adversely affect the Company's business, financial condition or results of operations.

Risks Related To The Company's Business and Industry

The Company is subject to interest rate risk.

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

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

The Company's earnings and cash flows are largely dependent upon the net interest income of the Company. Net interest income is the difference between interest earned on assets, such as loans and securities, and the cost of interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the FRB. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest the Company pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, which could reduce the amount of fee income generated; (ii) the fair value of the Company's financial assets and liabilities; and (iii) the

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average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income could be adversely affected, which in turn could negatively affect its earnings. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

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

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

The Company is subject to lending risk.

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

As of December 31, 2017, approximately 72.4% of the Company's loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

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

Because the Bank originates loans secured by real estate, the Bank may have to foreclose on the collateral property to protect its investment and may thereafter own and operate such property, in which case the Company is exposed to the risks inherent in the ownership of real estate. The amount realized after a default is dependent upon factors outside of the Company's control, including, but not limited to:

- general or local economic conditions;
- environmental cleanup liability;
- neighborhood values;
- interest rates;
- real estate tax rates;
- operating expenses of the mortgaged properties;
- supply of and demand for rental units or properties;
- ability to obtain and maintain adequate occupancy of the properties;
- zoning laws;
- governmental rules, regulations and fiscal policies; and
- natural disasters.

Certain expenses associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the net proceeds received from the real estate, if any. The ability to mitigate the losses on defaulted loans depends upon the ability to promptly foreclose upon the collateral after an appropriate cure period. In some states, the large number of mortgage foreclosures that have occurred has resulted in significant delays in foreclosing. Any delay in the foreclosure process adversely affects us by increasing the expenses related to carrying such real estate and exposes us to losses as a result of potential additional declines in the value of such collateral. As a result, the increased cost of owning and operating such real estate may exceed the rental income earned from the real estate (if any), the Company may have to advance additional funds to protect our investment or the Company may be required to dispose of the real estate at a loss.

The allowance for possible loan losses may be insufficient.

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

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

The Company depends on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, the Company often relies on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Company 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 the Company's business and, in turn, its financial condition and results of operations.

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

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

The Company is subject to risk from adverse economic conditions.

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

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The FRB has implemented significant economic strategies that have impacted interest rates, inflation, asset values, and the shape of the yield curve, and currently is transitioning from many years of easing to what may be a new period of tightening.

In recent years, the FRB has begun to gradually unwind the remaining domestic monetary policy initiatives as the economy continues to recover. In December 2015, the Federal Reserve raised the target federal funds rate after a prolonged period of no change by 25 bps and did so again by 25 bps a year later in December 2016. During 2017, the FRB raised the target federal funds rate by 25 bps in March, June and December, bringing the current range to 1.25 to 1.50 percent. These developments, along with the U. S. government's credit and deficit concerns, the European sovereign debt crisis and the economic slowdown in China, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Other significant monetary strategies could be implemented in the future including, in particular, so-called tightening strategies. FRB strategies can, and often are intended to, affect the domestic money supply, inflation, interest rates, and the shape of the yield curve. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, flatten the yield curve, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, steepen the yield curve, tighten the money supply, and restrain economic activity. All things being equal, the current transition from easing to possible tightening should tend to diminish or reverse downward pressure on rates, and to diminish or eventually end the stimulus effect that low rates tend to have on the economy. Many external factors may interfere with the effects of these plans or cause them to be changed unexpectedly. Such factors include significant economic trends or events as well as significant international monetary policies and events. Risks associated with interest rates and the yield curve are discussed in this Item 1A under the caption "The Company is subject to interest rate risk." Such strategies also can affect the United States. and world-wide financial systems in ways that may be difficult to predict.

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

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

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The Company is subject to extensive government regulation and supervision.

The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, and not the economic or other interests of shareholders. These regulations affect the Company's and the Bank's 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 the Company to additional costs, limit the types of financial services and products it may offer 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 the Company fails to meet these minimum capital guidelines and other regulatory requirements, its financial condition would be materially and adversely affected. The Company's failure to maintain the status of "well capitalized" under its regulatory framework could affect the confidence of its customers in the Company, thus compromising the Company's competitive position. In addition, failure to maintain the status of "well capitalized" under the Company's regulatory framework or "well managed" under regulatory examination procedures could compromise the Company's status as a bank holding company and related eligibility for a streamlined review process for acquisition proposals.

The Company is also subject to laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes Act, the Dodd Frank 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. The Company is committed to maintaining high standards of corporate governance and public disclosure. As a result, the Company's 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 the Company's business, prospects, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, it cannot assure that such violations will be prevented. The information under the heading "Supervision and Regulation" in Item 1, "Business," and Note 16, "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 the Company and the Bank operate.

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We are subject to claims and litigation.

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

The Company operates in a highly competitive industry and market area.

The Company faces substantial competition in all areas of its 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 the Company operates. The Company also faces 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 the Company’s markets.

The Company’s 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 the Company’s competitors have fewer regulatory constraints and may have lower cost structures. Additionally, many of the Company’s competitors have substantially greater resources than the Company, including higher total assets and capitalization, greater access to capital markets and a broader offering of financial services.

The Company’s 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 the Company introduces new products and services relative to its competitors.
- customer satisfaction with the Company’s and the Bank’s level of service.
- industry and general economic trends.

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

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

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

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

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

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

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

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

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

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

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- *Leverage Ratio – Base.* For all banking organizations, including the Bank, the leverage ratio must be at least 4%. To be “well capitalized” the leverage ratio must be at least 5%.
- *Leverage Ratio – Supplemental.* For the largest internationally active banking organizations, not including the Bank, a minimum supplementary leverage ratio must be maintained that takes into account certain off-balance sheet exposures.

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

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

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

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

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

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at an adequate level. In light of current economic conditions, the FDIC has increased its assessment rates and imposed special assessments. The FDIC may further increase these rates and impose additional special assessments in the future, which could have a material adverse effect on future earnings.

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

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

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

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

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

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

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

The Company has placed a strategic emphasis on expanding its 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.

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

The Company is a separate and distinct legal entity from the Bank, and it receives substantially all of its revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on its common stock and interest and principal on debt. Various

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

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

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

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

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

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

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

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

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

The Company continually encounters technological change.

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

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

For example, in 2015, 2016 and 2017 major retailers experienced data systems incursions reportedly resulting in the thefts of credit and debit card information, online account information, and other financial data of tens of millions of the retailers' customers. Retailer incursions affect cards issued and deposit accounts maintained by many banks, including the Bank. Although the Bank systems are not breached in retailer incursions, these events can cause the Bank to reissue a

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significant number of cards and take other costly steps to avoid significant theft loss to the Bank and its customers. Other possible points of incursion or disruption not within the Bank's control include internet service providers, electronic mail portal providers, social media portals, distant-server ("cloud") service providers, electronic data security providers, telecommunications companies, and smart phone manufacturers.

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

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

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's 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 the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause the Company to incur additional expenses. The occurrence of any such event could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company is subject to Accounting Estimate Risks.

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

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Expense Control could have an effect on the Company's earnings.

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

Risks Associated With the Company's Common Stock

The Company's stock price can be volatile.

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

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock 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 the Company or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- 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 the Company's stock price to decrease regardless of operating results.

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

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

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An investment in the Company's common stock is not an insured deposit.

The Company's 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 the Company's 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 the Company's common stock, you may lose some or all of your investment.

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

We may issue, in the future, shares of our common stock to acquire additional banks, bank holding companies, and other businesses related to the financial services industry that may complement our organizational structure. Resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. We may be required to pay an acquisition premium above the fair market value of acquired assets for acquisitions. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

We may issue debt or equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by all or up to all of our assets, or by issuing additional debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock or securities convertible into or exchangeable for equity securities. In the event of our liquidation, our lenders and holders of our debt and preferred securities would receive a distribution of our available assets before distributions to the holders of our common stock. Because any decision to incur debt or issue securities in future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any such future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future.

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

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

The Company, through the Bank, currently operates from its main office in downtown Philadelphia, Mississippi, and from 23 additional branches in Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Harrison, Jackson, Winston, and Kemper counties, Mississippi. Information about these branches, the Bank's main office and its new loan production office is set forth in the table below:

NAME OF OFFICE	LOCATION/ TELEPHONE NUMBER	BANKING FUNCTIONS OFFERED
Main Office	521 Main Street Philadelphia, Mississippi (601) 656-4692	Full Service; 24 Hour Teller
Eastside Branch	599 East Main Street Philadelphia, Mississippi (601) 656-4976	Full Service; 24 Hour Teller
Westside Branch	912 West Beacon Street Philadelphia, Mississippi (601) 656-4978	Full Service; 24 Hour Teller
Northside Branch	802 Pecan Avenue Philadelphia, Mississippi (601) 656-4977	Deposits; 24 Hour Teller
Union Branch	502 Bank Street Union, Mississippi (601) 774-9231	Full Service
Carthage Branch	301 West Main Street Carthage, Mississippi (601) 267-4525	Full Service
Flowood Branch	5419 Hwy 25, Suite Q Flowood, Mississippi (601) 992-7688	Deposits; Loans
Sebastopol Branch	24 Pine Street Sebastopol, Mississippi (601) 625-7447	Full Service; 24-Hour Teller
DeKalb Branch	176 Main Avenue DeKalb, Mississippi (601) 743-2115	Full Service

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Kosciusko Branch	775 North Jackson Avenue Kosciusko, Mississippi (662) 289-4356	Full Service; 24-hour Teller
Scooba Branch	27597 Highway 16 East Scooba, Mississippi (662) 476-8431	Full Service
Meridian Eastgate Branch	1825 Highway 39 North Meridian, Mississippi (601) 693-8367	Full Service; 24-Hour Teller
Decatur Branch	15330 Highway 15 South Decatur, Mississippi (601) 635-2321	Full Service; 24-Hour Teller
Forest Branch	247 Woodland Drive North Forest, Mississippi (601) 469-3424	Full Service; 24-Hour Teller
Louisville Main Branch	100 East Main Street Louisville, MS (662) 773-6261	Full Service; 24 Hour Teller
Louisville Industrial Branch	803 South Church Street Louisville, MS (662) 773-6261	Drive-Up
Noxapater Branch	45 East Main Street Noxapater, MS (662) 724-4261	Deposits
Starkville Branch	201 Highway 12 West Starkville, MS 39759 (662) 323-4210	Full Service; 24 Hour Teller
Collinsville Branch	9065 Collinsville Road Collinsville, MS 39325 (601) 626-7608	Full Service; 24 Hour Teller
Meridian Broadmoor	5015 Highway 493 Meridian, MS 39305 (601) 581-1541	Full Service; 24 Hour Teller
Hattiesburg	6222 Highway 98 West Hattiesburg, MS 39402 (601) 264-4425	Full Service 24 Hour Teller

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Biloxi Lemoyne	15309 Lemoyne Boulevard Biloxi, MS 39532 (228) 207-2343	Full Service; 24 Hour Teller
Biloxi Cedar Lake	1830 Poppo's Ferry Road Biloxi, MS 39532 (228) 594-6913	Full Service 24 Hour Teller
Flowood Branch	5419 Highway 25, Suite Q Flowood, MS 39232 (601) 992-7688	Full Service
Oxford LPO	304 Enterprise Drive Suite A Oxford, MS 38655	Loan Production Office

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Information required in partial response to this Item 5 can be found under the heading "Market Price and Dividend Information" in the 2017 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

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

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, 2017, 2016 and 2015—Selected Financial Data" in the 2017 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, 2017, 2016 and 2015" in the 2017 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 2017 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information required in response to this Item 8 can be found under the heading “Consolidated Financial Statements” and “Quarterly Financial Trends” in the 2017 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The management of this Company, with the participation of its principal executive and financial officers, has evaluated the effectiveness of the Company’s disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, including ensuring that such information is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, the Company’s principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2017 (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 2017 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 2017 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required in partial response to this Item 10 can be found under the heading “Executive Officers of the Registrant” in Item 1, “Business,” and under the headings “Stock Ownership” and “Board of Directors” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 20, 2018, relating to its 2018 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Code of Ethics

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

ITEM 11. EXECUTIVE COMPENSATION.

Information required in response to this Item 11 can be found under the headings “Board of Directors,” “Executive Officers and Executive Compensation,” “Report of the Compensation Committee,” and “Compensation Committee Interlocks and Insider Participation” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 20, 2018, relating to its 2018 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 20, 2018, relating to its 2018 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2017.

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⁾	63,000	\$20.96	270,000
Equity compensation plans not approved by security holders	-0-	\$0.00	-0-
Total	63,000	\$20.96	270,000

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

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

Information required in response to this Item 13 can be found under the heading "Board of Directors" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 20, 2018, relating to its 2018 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information required in response to this Item 14 can be found under the heading "Proposal No. 3, Appointment of HORNE LLP as the Company's Independent Registered Public Accounting Firm" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 20, 2018, relating to its 2018 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements

1. Consolidated Financial Statements and Supplementary Information for years ended December 31, 2015, 2016 and 2017, which include the following:

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

2. Financial Statement Schedules

None.

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

- 3(i) [Restated Articles of Incorporation of the Company](#) *
- 3(ii) [Second Amended and Restated Bylaws of the Company, as amended](#) **
- 10(a) [Directors' Deferred Compensation Plan - Form of Agreement](#) *†
- 10(b) [Citizens Holding Company 1999 Directors' Stock Compensation Plan](#) *†
- 10(c) [Citizens Holding Company 1999 Employees' Long-Term Incentive Plan](#) *†
- 10(d) [Change in Control Agreement dated December 10, 2002 between the Company and Greg L. McKee](#) ***†
- 10(e) [Supplemental Executive Retirement Plan](#) *****†
- 10(f) [Citizens Holding Company 2013 Incentive Compensation Plan](#) *****†
- 10(g) [Form of Incentive Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan](#) *****†
- 10(h) [Form of Non-Qualified Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan](#) *****†
- 10(i) [Form of Restricted Share Award Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan](#) *****†
- 10(j) [Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Citizens Holding Company 2013 Incentive Compensation Plan](#) *****†

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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	++
101	XBRL Exhibits	+
*	Filed as Exhibit 3(A) to the Company's Quarterly Report on Form 10-Q (File No. 000-25221) filed on May 10, 2017 and incorporated herein by reference.	
**	Filed as Exhibit 3(B) to the Company's Quarterly Report on Form 10-Q (File No. 000-25221) filed on May 10, 2017 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 Definitive Proxy Statement relating to its 2013 Annual Meeting of Shareholders (File No. 000-15375) filed on March 21, 2013 and incorporated herein by reference.	
*****	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 000-15375) filed on April 25, 2013 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, as updated on the Company's website, http://www.citizensholdingcompany.com 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.	
+	Filed herewith.	
++	Furnished herewith.	

ITEM 16. FORM 10-K SUMMARY.

The Company has elected not to include summary information.

SIGNATURES

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

CITIZENS HOLDING COMPANY

Date: March 15, 2018

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

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

SIGNATURES	CAPACITIES	DATE
<u>/s/ Greg. McKee</u> Greg McKee	Director, President and Chief Executive Officer (Principal Executive Officer)	March 15, 2018
<u>/s/ Robert T. Smith</u> Robert T. Smith	Treasurer, Chief Financial Officer (Principal Financial & Accounting Officer)	March 15, 2018
<u>/s/ Craig Dungan</u> Craig Dungan, MD	Director	March 15, 2018
<u>/s/ Don L. Fulton</u> Don L. Fulton	Director	March 15, 2018
<u>/s/ Donald L. Kilgore</u> Donald L. Kilgore	Director	March 15, 2018
<u>/s/ David A. King</u> David A. King	Director	March 15, 2018
<u>/s/ Herbert A. King</u> Herbert A. King	Chairman of the Board	March 15, 2018
<u>/s/ Adam Mars</u> Adam Mars	Director	March 15, 2018

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<u>/s/ David P. Webb</u> David P. Webb	Director	March 15, 2018
<u>/s/ A. T. Williams</u> A.T. Williams	Director	March 15, 2018
<u>/s/ Terrell E. Winstead</u> Terrell E. Winstead	Director	March 15, 2018

Dear Valued Stockholder:

I am pleased to present the results for 2017. We had many positive accomplishments during the past year and were able to successfully meet some major challenges as the year progressed. As you review the financial performance of this institution during 2017, I am sure that you will recognize that we experienced some extraordinary adjustments that resulted in reduced earnings. Because of the Tax Cuts and Jobs Act of 2017, the Bank, as required, reevaluated its deferred tax assets and deferred tax liabilities to account for the future impact of lower corporate tax rates on these deferred amounts. Although it is expected to positively impact the Bank's future after-tax earnings, the reduction in the federal corporate tax rate negatively impacted the Bank's fourth quarter 2017 results.

By virtually any standard, 2017 was another good year. We have been active beyond the walls of the bank, investing resources, volunteer hours and expertise in a host of organizations including the Boys & Girls Club, Diamond Dreams baseball for physically and mentally challenged children, the American Cancer Society, United Way and many more. Additionally, we continue our legacy of supporting area education through in-school programs, scholarships and recognitions of students.

During 2017, we introduced new technologies that enhanced our customers' banking experience. During 2018 our Interactive Teller Machines (ITMs) will be added to additional branch locations. Our ATM/ITM customers will have the option to connect to a TCB Live Teller in a real-time video connection or choose to conduct a traditional ATM transaction. TCB Live Tellers are available from 7 a.m. until 5:30 p.m., Monday through Friday. We also introduced an innovative personal payment service called C2C People Pay. Customers can send and receive money by email or text message using their computer, smart phone or tablet.

Identity theft is the fastest-growing crime in America, and The Citizens Bank is constantly at work to safeguard our customers' personal and financial data as we invest in new technology and personnel dedicated to doing so. Additional threat detection and monitoring systems have been added to our network infrastructure, providing continuous threat intelligence.

In November, The Citizens Bank opened our newest branch location in Biloxi, giving us entry into a dynamic new market. We were also pleased to be highlighted as a “*2017 Business To Watch in U.S. Finance*” by *AI Magazine*, in a Tyler Tips article.

In closing, I have often said that a company needs great stockholders, great customers and great employees to be successful, and we are blessed with all three. I thank *you* for your continuing participation in the growth and prosperity of The Citizens Bank. It is an honor to serve all of you and I look forward to a successful 2018.

Sincerely,

Greg McKee
President and CEO

CITIZENS HOLDING COMPANY

Philadelphia, Mississippi

Consolidated Financial Statements

As of December 31, 2017 and 2016 and for the
Years Ended December 31, 2017, 2016 and 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of Citizens Holding Company

Opinion on Financial Statement

We have audited the accompanying consolidated statements of financial condition of Citizens Holding Company and Subsidiary as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2018, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ HORNE LLP

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

Memphis, Tennessee
March 15, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of Citizens Holding Company

Opinion on the Internal Control Over Financial Reporting

We have audited Citizens Holding Company and subsidiary internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria for effective internal control over financial reporting described in the *Internal Control – Integrated Framework, (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the “PCAOB”), the consolidated financial statements as of December 31, 2017 and our report dated March 15, 2018 expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (a) pertain to the

maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ HORNE LLP

Memphis, Tennessee
March 15, 2018

Citizens Holding Company
Philadelphia, MS 39350

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

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

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

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

Management, with the participation of the Company's principal executive officer and principal financial officer, conducted an assessment of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2017, based on criteria for effective internal control over financial reporting described in the "Internal Control – Integrated Framework," (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2017, the Company's system of internal control over financial reporting is effective and meets the criteria of the "Internal Control – Integrated Framework". HORNE LLP, the Company's independent registered public accounting firm that has audited the Company's financial statements included in this annual report, has issued an attestation report on the Company's internal control over financial reporting which is included herein.

/s/ Greg McKee

/s/ Robert T. Smith

Greg L. McKee
President and Chief Executive Officer

Robert T. Smith
Treasurer and Chief Financial Officer

March 15, 2018

CITIZENS HOLDING COMPANY
Consolidated Statements of Financial Condition
December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash and due from banks	\$ 17,962,990	\$ 21,688,557
Interest bearing deposits with other banks	1,532,420	48,603,182
Securities available for sale, at fair value (amortized cost of \$516,006,296 in 2017 and \$513,220,290 in 2016)	505,046,377	496,124,574
Loans, net of allowance for loan losses of \$3,019,228 in 2017 and \$3,902,796 in 2016	402,390,574	390,148,343
Bank premises, furniture, fixtures and equipment, net	20,571,551	18,664,084
Other real estate owned, net	3,980,127	4,443,010
Accrued interest receivable	4,450,723	4,720,189
Cash surrender value of life insurance	24,612,779	23,890,333
Deferred tax assets	5,362,750	10,634,669
Other assets	7,185,537	6,294,966
Total assets	\$993,095,828	\$1,025,211,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing deposits	\$159,291,356	\$ 149,512,941
Interest bearing deposits	561,394,143	610,639,399
Total deposits	720,685,499	760,152,340
Securities sold under agreement to repurchase	142,497,938	150,282,913
Federal Funds Purchased	1,500,000	—
Federal Home Loan Bank advances	30,000,000	20,000,000
Accrued interest payable	198,183	199,368
Deferred compensation payable	8,620,890	8,209,427
Other liabilities	1,142,278	1,308,464
Total liabilities	904,644,788	940,152,512
Stockholders' equity		
Common stock, \$.20 par value, authorized 22,500,000 shares; 4,894,705 shares issued and outstanding at December 31, 2017 and 4,882,579 shares issued and outstanding at December 31, 2016	978,941	976,516
Additional paid-in capital	4,103,139	3,802,204
Accumulated other comprehensive loss, net of tax benefit of (\$2,734,500) in 2017 and (\$6,376,702) in 2016	(8,225,419)	(10,719,014)
Retained earnings	91,594,379	90,999,689
Total stockholders' equity	88,451,040	85,059,395
Total liabilities and stockholders' equity	\$993,095,828	\$1,025,211,907

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Income
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Interest income			
Interest and fees on loans	\$18,733,676	\$19,012,157	\$20,040,315
Interest on securities			
Taxable	8,178,526	7,589,532	8,026,808
Non-taxable	3,319,234	3,382,064	2,802,915
Other interest	273,379	185,188	94,721
Total interest income	<u>30,504,815</u>	<u>30,168,941</u>	<u>30,964,759</u>
Interest expense			
Deposits	1,921,904	1,843,983	1,843,717
Other borrowed funds	1,420,635	1,253,574	1,233,162
Total interest expense	<u>3,342,539</u>	<u>3,097,557</u>	<u>3,076,879</u>
Net interest income	27,162,276	27,071,384	27,887,880
Provision for loan losses	543,138	65,056	(556,687)
Net interest income after provision for loan losses	27,705,414	27,136,440	27,331,193
Non-interest income			
Service charges on deposit accounts	4,238,525	3,788,984	3,866,537
Other service charges and fees	2,637,947	2,440,819	2,284,262
Net gains on sales of securities	104,708	112,881	17,503
Other income	1,314,964	1,348,916	2,159,407
Total non-interest income	<u>8,296,144</u>	<u>7,691,600</u>	<u>8,327,709</u>
Non-interest expense			
Salaries and employee benefits	14,772,438	13,696,985	13,295,211
Occupancy expense	2,174,839	2,079,529	2,160,198
Equipment expense	3,209,677	3,028,654	3,065,042
Other expense	8,070,465	7,674,483	7,070,516
Total non-interest expense	<u>28,227,419</u>	<u>26,479,651</u>	<u>25,590,967</u>
Income before income taxes	7,774,139	8,348,389	10,067,935
Income tax expense	4,070,591	1,611,735	2,479,034
Net income	<u>\$ 3,703,548</u>	<u>\$ 6,736,654</u>	<u>\$ 7,588,901</u>
Net income per share – basic	<u>\$ 0.76</u>	<u>\$ 1.38</u>	<u>\$ 1.56</u>
Net income per share – diluted	<u>\$ 0.76</u>	<u>\$ 1.38</u>	<u>\$ 1.56</u>
Average shares outstanding			
Basic	<u>4,878,691</u>	<u>4,865,968</u>	<u>4,872,064</u>
Diluted	<u>4,895,848</u>	<u>4,875,638</u>	<u>4,874,141</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Net income	\$ 3,703,548	\$ 6,736,654	\$ 7,588,901
Other comprehensive income (loss)			
Unrealized holding gains (losses) on available-for-sale securities	6,240,505	(16,938,482)	(1,379,518)
Income tax effect	(2,080,129)	6,318,053	514,561
Net unrealized gains (losses)	<u>4,160,376</u>	<u>(10,620,429)</u>	<u>(864,957)</u>
Unrealized losses on securities transferred from available-for-sale to held-to-maturity	—	—	—
Amortization of net unrealized losses transferred during the period	—	11,305,439	4,210,897
Income tax effect	<u>—</u>	<u>(4,216,929)</u>	<u>(1,570,664)</u>
	<u>—</u>	<u>7,088,510</u>	<u>2,640,233</u>
Reclassification adjustment for gains included in net income	(104,708)	(112,881)	(17,503)
Income tax effect	<u>26,125</u>	<u>42,105</u>	<u>6,528</u>
Net gains included in net income	<u>(78,583)</u>	<u>(70,776)</u>	<u>(10,975)</u>
Total other comprehensive income (loss)	<u>4,081,793</u>	<u>(3,602,695)</u>	<u>1,764,301</u>
Comprehensive income	<u>\$ 7,785,341</u>	<u>\$ 3,133,959</u>	<u>\$ 9,353,202</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2017, 2016, and 2015

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2015	4,877,614	975,482	\$3,861,717	\$ (8,880,620)	\$85,901,207	\$81,857,786
Net income	—	—	—	—	7,588,901	7,588,901
Dividends paid (\$0.93 per share)	—	—	—	—	(4,540,748)	(4,540,748)
Stock repurchased	(19,035)	(3,807)	(386,398)	—	—	(390,205)
Options exercised	1,500	341	26,659	—	—	27,000
Excess tax benefits	—	—	1,001	—	—	1,001
Restricted stock granted	15,000	3,000	(3,000)	—	—	—
Stock compensation expense	—	—	117,300	—	—	117,300
Other comprehensive income, net	—	—	—	1,764,301	—	1,764,301
Balance, December 31, 2015	4,875,079	975,016	3,617,279	(7,116,319)	88,949,360	86,425,336
Net income	—	—	—	—	6,736,654	6,736,654
Dividends paid (\$0.96 per share)	—	—	—	—	(4,686,325)	(4,686,325)
Restricted stock granted	7,500	1,500	(1,500)	—	—	—
Stock compensation expense	—	—	186,425	—	—	186,425
Other comprehensive loss, net	—	—	—	(3,602,695)	—	(3,602,695)
Balance, December 31, 2016	4,882,579	976,516	3,802,204	(10,719,014)	90,999,689	85,059,395
Net income	—	—	—	—	3,703,548	3,703,548
Dividends paid (\$0.96 per share)	—	—	—	—	(4,697,056)	(4,697,056)
Options exercised	4,626	925	91,700	—	—	92,625
Restricted stock granted	7,500	1,500	(1,500)	—	—	—
Stock compensation expense	—	—	210,735	—	—	210,735
AOCI reclassification	—	—	—	(1,588,198)	1,588,198	—
Other comprehensive income, net	—	—	—	4,081,793	—	4,081,793
Balance, December 31, 2017	<u>4,894,705</u>	<u>\$978,941</u>	<u>4,103,139</u>	<u>(8,225,419)</u>	<u>91,594,379</u>	<u>\$88,451,040</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Cash flows from operating activities			
Net income	\$ 3,703,548	\$ 6,736,654	\$ 7,588,901
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,003,381	980,514	1,040,207
Amortization of premiums and accretion of discounts on investment securities, net	3,316,537	2,536,692	1,208,954
Stock compensation expense	210,735	186,425	117,300
Provision for loan losses	(543,138)	(65,056)	556,687
Gain on sale of securities	(104,707)	(112,881)	(17,503)
Federal Home Loan Bank stock dividends	(22,000)	(13,000)	(4,500)
Deferred income tax expense (benefit)	3,885,194	673,977	(86,251)
Net writedown on other real estate owned	413,740	226,828	156,053
Decrease (increase) in accrued interest receivable	269,466	(792,128)	(58,124)
Increase in cash surrender value life insurance	(722,446)	(756,689)	(786,043)
(Decrease) Increase in accrued interest payable	(1,185)	19,373	(10,722)
Increase in deferred compensation liability	411,463	490,803	508,930
Net change in other operating assets and liabilities	(1,200,936)	(32,599)	188,128
Net cash provided by operating activities	<u>10,619,652</u>	<u>10,078,913</u>	<u>10,402,017</u>
Cash flows from investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	42,390,364	130,181,028	41,493,768
Proceeds from calls of securities held-to-maturity	—	172,359,945	47,853,733
Proceeds from sales of securities available-for-sale	114,060,844	764,023	5,758,795
Purchases of investment securities available-for-sale	(162,449,043)	(379,291,499)	(135,229,379)
Purchases of bank premises, furniture, fixtures and equipment	(2,910,848)	(988,907)	(455,668)
Proceeds from sale of other real estate owned	137,722	1,090,031	1,192,328
Net (increase) decrease in interest bearing deposits with other banks	47,070,762	(6,335,405)	19,213,446
Proceeds from redemption of			
Federal Home Loan Bank Stock	—	—	150,700
Purchases of Federal Home Loan Bank Stock	(498,700)	(3,600)	—
Net decrease (increase) in loans	<u>(11,787,672)</u>	<u>30,837,979</u>	<u>(40,117,134)</u>
Net cash provided (used) by investing activities	<u>26,013,429</u>	<u>(51,386,405)</u>	<u>(60,139,411)</u>

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016, and 2015
2 of 2

	2017	2016	2015
Cash flows from financing activities			
Net (decrease) increase in deposits	\$(39,469,242)	\$ 6,749,953	\$ 57,310,894
Net increase in federal funds purchased	1,500,000	—	—
Net change in securities sold under agreement to repurchase	(7,784,975)	45,984,731	(10,128,588)
Proceeds from exercise of stock options	92,625	—	27,000
Stock repurchase	—	—	(390,205)
Excess tax benefit on stock option exercises	—	—	1,001
Dividends paid to stockholders	(4,697,056)	(4,686,325)	(4,540,748)
Federal Home Loan Bank advances	10,000,000	—	—
Net cash provided by financing activities	(40,358,648)	48,048,359	42,279,354
Net increase (decrease) in cash and due from banks	(3,725,567)	6,740,867	(7,458,040)
Cash and due from banks, beginning of year	21,688,557	14,947,690	22,405,730
Cash and due from banks, end of year	<u>\$ 17,962,990</u>	<u>\$21,688,557</u>	<u>\$ 14,947,690</u>
Supplemental disclosures of cash flow information			
Cash paid for			
Interest	<u>\$ 3,343,724</u>	<u>\$ 3,078,184</u>	<u>\$ 3,087,601</u>
Income taxes	<u>\$ 1,781,790</u>	<u>\$ 1,692,201</u>	<u>\$ 2,301,698</u>
Noncash disclosures			
Real estate acquired by foreclosure	<u>\$ 88,579</u>	<u>\$ 2,187,125</u>	<u>\$ 869,564</u>

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

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

Nature of Business

The Citizens Bank of Philadelphia, Mississippi (the “Bank”) operates under a state bank charter and provides general banking services. As a state bank, the Bank is subject to regulations of the Mississippi Department of Banking and Consumer Finance and the Federal Deposit Insurance Company. The Company is also subject to the regulations of the Federal Reserve. The area served by the Bank is east central and southern counties of Mississippi and the surrounding areas. Services are provided at several branch offices.

Estimates

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

For the purpose of reporting cash flows, cash and due from banks includes cash on hand and demand deposits. Cash flows from loans originated by the Company, deposits, and federal funds purchased and sold are reported net in the statement of cash flows. The Company is required to maintain average reserve balances with the Federal Reserve Bank based on a percentage of deposits. The Company was not required to maintain an average reserve balance by the Federal Reserve Bank at December 31, 2017 and 2016.

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

Investment Securities

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

Securities Available-for-Sale

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

Securities Held to Maturity

Securities that are held-to-maturity ("HTM") are those securities that the Company has the positive intent and ability to hold until maturity. These securities cannot be sold in response to the risk factors discussed above for available for sale securities. These securities are reported at book value. As of December 31, 2017 and 2016, there were no securities classified as HTM.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

The Company periodically reviews its securities for impairment based upon a number of factors, including but not limited to, length of time and extent to which the fair value has been less than cost, the likelihood of the security's ability to recover any decline in its fair value, financial condition of the underlying issuer, ability of the issuer to meet contractual obligations and ability to retain the security for a period of time sufficient to allow for recovery in fair value. Impairments on securities are recognized when management, based on its analysis, deems the impairment to be other-than-temporary. Disclosures about unrealized losses in the Company's securities portfolio that have not been recognized as other-than-temporary impairments are provided in Note 2.

Loans and Allowance for Loan Losses

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

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

The allowance for loan losses is established through a provision for loan losses charged against net income. Loans determined to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance represents an amount, which, in management's judgment, will be adequate to absorb estimated probable losses on existing loans that may become uncollectible. In order to determine an adequate level of allowance, management utilizes a model that calculates the allowance for loan loss by applying an average historical charge-off percentage by loan segment and over a 20 quarter period of time with the most current quarters weighted to show the effect of the most recent chargeoff activity to the current loan balances in the corresponding loan segment. Additionally, for loan balances over \$100,000, specific reserves on an individual loan basis may be applied in addition to the allowance calculated using the model. This specific reserve is determined by an extensive review of the borrower's credit history, capacity to pay, adequacy of collateral and general economic conditions related to the respective loan. This specific reserve will stay in place until such time that the borrower's obligation is satisfied or the loan is greatly improved.

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Bank Premises, Furniture, Fixtures and Equipment

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

Other Real Estate Owned

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

Cash Surrender Value of Life Insurance

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

Intangible Assets

Intangible assets include core deposits purchased and goodwill. Core deposit intangibles are amortized on a straight-line basis over their estimated economic lives ranging from 5 to 10 years. At December 31, 2017, all core deposit intangibles had been fully amortized. 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. At December 31, 2017 and 2016, the Company had \$3,149,657 in goodwill included in other assets.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Trust Assets

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

Income Taxes

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

Comprehensive Income (Loss)

Comprehensive income includes net earnings reported in the consolidated statements of income, changes in unrealized gain (loss) on securities available-for-sale and changes in unrealized losses on securities transferred from AFS to HTM reported as a component of shareholders' equity. Unrealized gain (loss) on securities available-for-sale and changes in unrealized losses on securities transferred from AFS to HTM, net of related income taxes, were the only components of accumulated other comprehensive income for the Company. At December 31, 2016, all HTM securities had been called and therefore there were no remaining unrealized losses on securities transferred from AFS to HTM.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Net Income Per Share

Net income per share-basic is computed by dividing net income by the weighted average number of common shares outstanding during the year. Net income per share-diluted is based on the weighted average number of shares of common stock outstanding for the periods, including the dilutive effect of the Company's outstanding stock options and restricted stock grants. The effect of the dilutive shares for the years 2017, 2016 and 2015 is illustrated in the following table.

	2017	2016	2015
Basic weighted average shares outstanding	4,878,691	4,865,968	4,872,064
Dilutive effect of stock options	17,157	9,670	2,077
Dilutive weighted average shares outstanding	4,895,848	4,875,638	4,874,141
Net income	\$3,703,548	\$6,736,654	\$7,588,901
Net income per share-basic	\$ 0.76	\$ 1.38	\$ 1.56
Net income per share-diluted	\$ 0.76	\$ 1.38	\$ 1.56

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$649,612, \$783,303 and \$793,282 for the years ended December 31, 2017, 2016 and 2015, respectively.

Securities Sold Under Agreements to Repurchase

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

Reclassifications

Certain information for 2015 and 2016 has been reclassified to conform to the financial presentation for 2017. Such reclassifications had no effect on net income or shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Stock-Based Compensation

At December 31, 2017, the Company had outstanding grants under two stock-based compensation plans, which are the 1999 Directors' Stock Compensation Plan and the 2013 Incentive Compensation Plan. Compensation expense for option grants and restricted stock awards is determined based on the estimated fair value of the stock options and restricted stock on the applicable grant or award date. The Company has elected to account for forfeitures in compensation cost when they occur as permitted under the guidance in ASC 718, "Compensation—Stock Compensation" ("ASC 718"). Expense associated with the Company's stock-based compensation is included under the line item "Salaries and benefits" on the Consolidated Statements of Income. The Company recognizes compensation expense for all share-based payments to employees in accordance with ASC 718, "Compensation – Stock Compensation." See Note 17 for further details regarding the Company's stock-based compensation.

Subsequent Events

The Company has evaluated, for consideration of recognition or disclosure, subsequent events that have occurred through the date of issuance of its financial statements, and has determined that no significant events occurred after December 31, 2017 but prior to the issuance of these financial statements that would have a material impact on its Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued *Accounting Standards Update (ASU) No. 2016-01, Financial Instruments—Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities*, which finalizes Proposed ASU Nos. 2013-220 and 2013-221 and seeks to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. Among the many targeted improvements to U.S. GAAP in ASU No. 2016-01 are (1) requiring equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net incomes; (2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; and (4) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. Further, ASU No. 2016-01 applies to all entities that hold financial assets or owe financial liabilities. For public business entities, the amendments in ASU No. 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application by public business entities to financial statements of fiscal years or interim periods that have not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

yet been issued or, by all other entities, that have not yet been made available for issuance of certain amendments identified in this Update are permitted as of the beginning of the fiscal year of adoption. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB has issued an *Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842)*, intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the guidance in the ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. For public business entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU is intended to simplify various aspects of accounting for share-based compensation arrangements, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For example, the new guidance requires all excess tax benefits and tax deficiencies related to share-based payments to be recognized in income tax expense, and for those excess tax benefits to be recognized regardless of whether it reduces current taxes payable. The ASU also allows an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The Company has elected to account for forfeitures in compensation cost when they occur as permitted by the ASU. For public companies, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The adoption did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (“CECL”) model for both originated and acquired financial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases, and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale (“AFS”) debt securities will also be recognized through an allowance, however the allowance for an individual AFS debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense. Expanded disclosures will also be required. Transition will generally be on a modified retrospective basis, with certain prospective application transition provisions for securities for which other-than-temporary impairment had previously been recognized and for assets that had previously been accounted for in accordance with Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company does not intend to early adopt. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements and does not expect the impact to be significant.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *“Revenue from Contracts with Customers”* (“ASU 2014-09”), which is an update to FASB Accounting Standards Codification (“ASC”) 606, *“Revenue from Contracts with Customers”* (“ASC 606”). ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of this standard to annual and interim periods beginning after December 15, 2017. While the Company is currently evaluating the impact ASU 2014-09 will have on its financial position and results of operations, and its financial statement disclosures, the recognition of revenue for a majority of the Company’s income streams, including interest income earned on loans and leases, is governed by other accounting standards and is specifically excluded from the coverage of ASC 606. The Company’s revenue covered by ASC 606, the most significant of which is service charges on deposit accounts, are generally based on day-to-day contracts with Company customers and is not impacted by the new guidance. The Company adopted the standard in the first quarter of 2018 and, at the time of this filing, does not expect to record a cumulative effect adjustment to the opening retained earnings as any adjustment was determined to be immaterial. The Company will include newly applicable revenue disclosures in future filings.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

In February 2018, FASB issued ASU 2018-02, *“Income Statement—Reporting Comprehensive Income (Topic 220)”* (“ASU 2018-02”). The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings to eliminate the stranded tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act. ASU 2018-02 will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period, for public companies for reporting periods for which financial statements have not yet been issued. The Company elected to early adopt ASU 2018-02 and, as a result, reclassified \$1,588,198 from accumulated other comprehensive income to retained earnings as of December 31, 2017. The reclassification impacted the Consolidated Balance Sheet and the Consolidated Statement of Changes in Shareholders’ Equity as of and for the twelve months ended December 31, 2017.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Investment Securities

The amortized cost and estimated fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income at December 31, 2017 and 2016 were as follows:

<u>2017</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	\$180,647,580	\$ —	\$ 4,199,022	\$176,448,558
Mortgage-backed securities	213,707,125	43,197	5,327,265	208,423,057
State, County, Municipals	118,786,297	849,364	2,535,126	117,100,535
Other investments	2,865,294	208,933	—	3,074,227
Total	<u>\$516,006,296</u>	<u>\$1,101,494</u>	<u>\$12,061,413</u>	<u>\$505,046,377</u>
<u>2016</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	\$207,080,794	\$ —	\$ 7,114,186	\$199,966,608
Mortgage-backed securities	152,765,924	340,419	4,841,633	148,264,710
State, County, Municipals	150,503,811	1,269,356	6,851,017	144,922,150
Other investments	2,869,761	101,345	—	2,971,106
Total	<u>\$513,220,290</u>	<u>\$1,711,120</u>	<u>\$18,806,836</u>	<u>\$496,124,574</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

The following tables show the gross unrealized losses and fair value of the Company's investments classified as AFS investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2017 and 2016.

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

December 31, 2017						
Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S.						
Government agencies	\$ 15,681,866	223,535	\$160,766,691	3,975,488	\$176,448,557	4,199,023
Mortgage backed securities	88,499,852	1,613,091	116,753,236	3,714,175	205,253,088	5,327,266
State, County, Municipal	7,117,600	59,041	66,973,174	2,476,084	74,090,774	2,535,125
Total	<u>\$111,299,318</u>	<u>1,895,667</u>	<u>\$344,493,101</u>	<u>10,165,747</u>	<u>\$455,792,419</u>	<u>12,061,414</u>
December 31, 2016						
Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S.						
Government agencies	\$195,362,908	6,752,521	\$ 4,603,700	361,665	\$199,966,608	7,114,186
Mortgage backed securities	117,437,836	4,182,916	24,353,553	658,717	141,791,389	4,841,633
State, County, Municipal	95,088,225	6,663,280	3,092,183	187,737	98,180,408	6,851,017
Total	<u>\$407,888,969</u>	<u>17,598,717</u>	<u>\$ 32,049,436</u>	<u>1,208,119</u>	<u>\$439,938,405</u>	<u>18,806,836</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

Investment Securities.

The Company's unrealized losses on its Obligations of United States Government agencies, Mortgage backed securities and State, County and Municipal bonds are the result of an upward trend in interest rates, mainly in the mid-term sector. None of the unrealized losses disclosed in the previous table are related to credit deterioration. The Company has determined that none of the securities in this classification are other-than-temporarily impaired at December 31, 2017.

Other Investments.

The Company at December 31, 2017 and 2016, owned an investment in a pooled trust preferred security. In the past the value of the pooled trust preferred security was related to the deterioration of the markets for these types of securities brought about by the lowered credit ratings and past deferrals and defaults of the underlying issuing financial institutions. However, due to the reductions in defaults and deferrals since 2015, the unrealized gain or loss has improved from a \$15,425 loss in 2015 to a \$101,345 gain in 2016 and then to a \$208,933 gain in 2017. The Company owns a senior tranche of this security and therefore has a higher degree of which future deferrals and defaults would be required before the cash flow for the Company's tranche is negatively impacted. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell at a price less than amortized cost prior to maturity. Given these factors, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2017 or December 31, 2016. This security is not subject to any of the restrictions put forth under the Volcker Rule that was brought about by the passage of the Dodd-Frank Act.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

The amortized cost and estimated fair value of securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>AFS</u>	<u>Amortized</u>	<u>Fair Value</u>
Securities AFS	Cost	
Due in one year or less	\$ 3,398,727	\$ 3,421,576
Due after one year through five years	75,887,288	74,589,829
Due after five years through ten years	55,691,854	54,740,055
Due after ten years	<u>381,028,427</u>	<u>372,294,917</u>
Total	<u>\$516,006,296</u>	<u>\$505,046,377</u>

Investment securities with fair values of \$223,005,409 and \$226,633,330 at December 31, 2017 and December 31, 2016, respectively, were pledged as collateral for public deposits.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Gross realized gains	\$633,244	\$112,881	\$142,422
Gross realized losses	<u>528,536</u>	<u>—</u>	124,919
Net realized gains	<u>\$104,708</u>	<u>\$112,881</u>	<u>\$ 17,503</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank of Dallas ("FHLB") system, owns stock in the organization. No ready market exists for the stock, and it has no quoted market value. The Company's investment in the FHLB is carried at cost of \$1,740,200 and \$1,219,500 at December 31, 2017 and December 31, 2016, respectively, and is included in other assets. The Company purchased stock in 2016 and 2017 at the par value of \$100 per share.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans

The composition of loans, net at December 31, 2017 and 2016 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Real Estate:		
Land Development and Construction	\$ 25,923	\$ 23,793
Farmland	16,905	18,175
1-4 Family Mortgages	95,925	97,812
Commercial Real Estate	<u>191,736</u>	<u>180,880</u>
Total Real Estate Loans	330,489	320,660
Business Loans:		
Commercial and Industrial Loans	58,204	53,761
Farm Production and Other Farm Loans	<u>922</u>	<u>765</u>
Total Business Loans	59,126	54,526
Consumer Loans:		
Credit Cards	1,310	1,156
Other Consumer Loans	<u>14,680</u>	<u>18,310</u>
Total Consumer Loans	<u>15,990</u>	<u>19,466</u>
Total Gross Loans	405,605	394,652
Unearned Income	(195)	(601)
Allowance for Loan Losses	<u>(3,019)</u>	<u>(3,903)</u>
Loans, net	<u>\$402,391</u>	<u>\$390,148</u>

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews these policies and procedures and submits them to the Company's Board of Directors for its approval when needed, but no less frequently than annually. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

Loans are made principally to customers in the Company's market. The Company's lending policy provides that loans collateralized by real estate are normally made with loan-to-value ("LTV") ratios of 80 percent or less. Commercial loans are typically collateralized by property, equipment, inventories or receivables with LTV ratios from 50 percent to 80 percent. Real estate mortgage loans are collateralized by personal residences with LTV ratios of 80 percent or less. Consumer loans are typically collateralized by real estate, vehicles and other consumer durable goods. Approximately \$48.7 million and \$38.0 million of the loans outstanding at December 31, 2017 and December 31, 2016, respectively, were variable rate loans.

In the ordinary course of business, the Company has granted loans to certain directors and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans during 2017 is presented in the following table.

Balance outstanding at December 31, 2016	\$320,426
Principal additions	39,250
Principal reductions	<u>(54,318)</u>
Balance outstanding at December 31, 2017	<u>\$305,358</u>

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

	2017	2016
Real Estate:		
Land Development and Construction	\$ —	\$ 133
Farmland	366	234
1-4 Family Mortgages	2,131	1,954
Commercial Real Estate	4,891	6,293
Total Real Estate Loans	7,388	8,614
Business Loans:		
Farm Loans	32	—
Commercial and Industrial Loans	78	239
Total Business Loans	110	239
Consumer Loans:		
Other Consumer Loans	84	26
Total Consumer Loans	84	26
Total Nonaccrual Loans	<u>\$7,582</u>	<u>\$8,879</u>

In the event that non-accrual loans had performed in accordance with their original terms, the Company would have recognized additional interest income of approximately \$412,915, \$651,560 and \$732,268 in 2017, 2016 and 2015, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

An age analysis of past due loans, segregated by class of loans, as of December 31, 2017 was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 281	\$ —	\$ 281	\$ 25,642	\$ 25,923	\$ —
Farmland	93	—	93	16,812	16,905	—
1-4 Family Mortgages	2,657	—	2,657	93,268	95,925	—
Commercial Real Estate	2,585	862	3,447	188,289	191,736	807
Total Real Estate Loans	5,616	862	6,478	324,011	330,489	807
Business Loans:						
Commercial and Industrial Loans	32	—	32	58,172	58,204	—
Farm Production and Other Farm Loans	19	—	19	903	922	—
Total Business Loans	51	—	51	59,075	59,126	—
Consumer Loans:						
Credit Cards	25	6	31	1,279	1,310	6
Other Consumer Loans	422	—	422	14,258	14,680	—
Total Consumer Loans	447	6	453	15,537	15,990	6
Total Loans	\$ 6,114	\$ 868	\$ 6,982	\$398,623	\$405,605	\$ 813

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

An age analysis of past due loans, segregated by class of loans, as of December 31, 2016 was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 208	\$ 78	\$ 286	\$ 23,507	\$ 23,793	\$ —
Farmland	584	65	649	17,526	18,175	—
1-4 Family Mortgages	2,993	596	3,589	94,223	97,812	179
Commercial Real Estate	6,491	185	6,676	174,204	180,880	—
Total Real Estate Loans	10,276	924	11,200	309,460	320,660	179
Business Loans:						
Commercial and Industrial Loans	66	186	252	53,509	53,761	—
Farm Production and Other Farm Loans	—	—	—	765	765	—
Total Business Loans	66	186	252	54,274	54,526	—
Consumer Loans:						
Credit Cards	7	3	10	1,146	1,156	—
Other Consumer Loans	788	27	815	17,495	18,310	27
Total Consumer Loans	795	30	825	18,641	19,466	27
Total Loans	\$11,137	\$ 1,140	\$12,277	\$382,375	\$394,652	\$ 206

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

Impaired loans as of December 31, by class of loans, are as follows (in thousands):

<u>2017</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment With No Allowance</u>	<u>Recorded Investment With Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
Real Estate:						
Land Development and Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	—	—	—	—	—	62
1-4 Family Mortgages	303	—	303	303	46	875
Commercial Real Estate	<u>4,093</u>	<u>—</u>	<u>4,093</u>	<u>4,093</u>	<u>397</u>	<u>4,710</u>
Total Real Estate Loans	4,396	—	4,396	4,396	443	5,647
Business Loans:						
Commercial and Industrial Loans	—	—	—	—	—	—
Farm Production and Other Farm Loans	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Business Loans	—	—	—	—	—	—
Total Loans	<u><u>\$4,396</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 4,396</u></u>	<u><u>\$ 4,396</u></u>	<u><u>\$ 443</u></u>	<u><u>\$ 5,647</u></u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

2016	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	163	—	163	163	28	119
1-4 Family Mortgages	1,448	—	1,448	1,448	252	2,276
Commercial Real Estate	5,327	—	5,327	5,327	469	8,495
Total Real Estate Loans	6,938	—	6,938	6,938	749	10,890
Business Loans:						
Commercial and Industrial Loans	126	—	126	126	38	33
Farm Production and Other Farm Loans	—	—	—	—	—	—
Total Business Loans	126	—	126	126	38	33
Total Loans	\$7,064	\$ —	\$ 7,064	\$ 7,064	\$ 787	\$10,923

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2017			
Commercial real estate	<u>3</u>	<u>\$ 4,871</u>	<u>\$ 3,047</u>
Total	<u>3</u>	<u>\$ 4,871</u>	<u>\$ 3,047</u>
December 31, 2016			
Commercial real estate	<u>3</u>	<u>\$ 4,871</u>	<u>\$ 3,288</u>
Total	<u>3</u>	<u>\$ 4,871</u>	<u>\$ 3,288</u>

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

	Number of Loans	Recorded Investment
Totals at January 1, 2017	<u>3</u>	<u>\$ 3,288</u>
Additional loans with concessions		
Reductions due to:		
Principal paydowns	<u> </u>	<u>(241)</u>
Total at December 31, 2017	<u>3</u>	<u>\$ 3,047</u>

The allocated allowance for loan losses attributable to restructured loans was \$174,274 at December 31, 2017 and 2016.

The Company had no remaining availability under commitments to lend additional funds on these troubled debt restructurings at December 31, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

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

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

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

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

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

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

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management's most updated judgment regarding grades at December 31, 2017.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2017 (in thousands):

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 23,720	\$ 2,116	\$ 87	\$ —	\$—	\$ 25,923
Farmland	15,496	377	1,032	—	—	16,905
1-4 Family Mortgages	82,227	5,615	8,083	—	—	95,925
Commercial Real Estate	143,271	41,833	6,632	—	—	191,736
Total Real Estate Loans	264,714	49,941	15,834	—	—	330,489
Business Loans:						
Commercial and Industrial Loans	55,081	2,990	133	—	—	58,204
Farm Production and Other Farm Loans	853	9	60	—	—	922
Total Business Loans	55,934	2,999	193	—	—	59,126
Consumer Loans:						
Credit Cards	1,304	—	6	—	—	1,310
Other Consumer Loans	14,414	71	137	58	—	14,680
Total Consumer Loans	15,718	71	143	58	—	15,990
Total Loans	\$336,366	\$53,011	\$ 16,170	\$ 58	\$—	\$405,605

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2016 (in thousands):

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 23,038	\$ 186	\$ 569	\$ —	\$ —	\$ 23,793
Farmland	16,448	776	951	—	—	18,175
1-4 Family Mortgages	86,043	1,754	10,015	—	—	97,812
Commercial Real Estate	<u>161,323</u>	<u>11,072</u>	<u>8,485</u>	<u>—</u>	<u>—</u>	<u>180,880</u>
Total Real Estate Loans	286,852	13,788	20,020	—	—	320,660
Business Loans:						
Commercial and Industrial Loans	51,985	1,427	349	—	—	53,761
Farm Production and Other Farm Loans	<u>727</u>	<u>28</u>	<u>10</u>	<u>—</u>	<u>—</u>	<u>765</u>
Total Business Loans	52,712	1,455	359	—	—	54,526
Consumer Loans:						
Credit Cards	1,153	—	3	—	—	1,156
Other Consumer Loans	<u>18,027</u>	<u>149</u>	<u>132</u>	<u>2</u>	<u>—</u>	<u>18,310</u>
Total Consumer Loans	<u>19,180</u>	<u>149</u>	<u>135</u>	<u>2</u>	<u>—</u>	<u>19,466</u>
Total Loans	<u><u>\$358,744</u></u>	<u><u>\$15,392</u></u>	<u><u>\$ 20,514</u></u>	<u><u>\$ 2</u></u>	<u><u>\$—</u></u>	<u><u>\$394,652</u></u>

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

	2017	2016	2015
Real Estate:			
Land Development and Construction	\$ 97,685	\$ (17,677)	\$ (8,700)
Farmland	—	(934)	(5,156)
1-4 Family Mortgages	40,682	154,387	149,014
Commercial Real Estate	—	2,387,956	415,413
Total Real Estate Loans	<u>138,367</u>	<u>2,523,732</u>	<u>550,571</u>
Business Loans:			
Commercial and Industrial Loans	164,191	(8,230)	1,585
Farm Production and other Farm Loans	—	—	—
Total Business Loans	<u>164,191</u>	<u>(8,230)</u>	<u>1,585</u>
Consumer Loans:			
Credit Cards	(6,654)	9,285	15,493
Other Consumer Loans	44,526	(18,936)	57,661
Total Consumer Loans	<u>37,872</u>	<u>(9,651)</u>	<u>73,154</u>
Total Net Chargeoffs	<u><u>\$340,430</u></u>	<u><u>\$2,505,851</u></u>	<u><u>\$625,310</u></u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2017, 2016 and 2015:

2017	Real Estate	Business Loans	Consumer	Total
Beginning Balance	\$3,117,134	\$ 257,554	\$528,108	\$3,902,796
Provision for possible loan losses	(827,052)	253,418	30,496	(543,138)
Chargeoffs	168,841	165,685	102,567	437,093
Recoveries	30,474	1,494	64,695	96,663
Net chargeoffs	138,367	164,191	37,872	340,430
Ending Balance	<u>\$2,151,715</u>	<u>\$ 346,781</u>	<u>\$520,732</u>	<u>\$3,019,228</u>
Period end allowance allocated to:				
Loans individually evaluated for impairment	\$ 442,589	\$ —	\$ —	\$ 442,589
Loans collectively evaluated for impairment	1,709,126	346,781	520,732	2,576,639
Ending Balance	<u>\$2,151,715</u>	<u>\$ 346,781</u>	<u>\$520,732</u>	<u>\$3,019,228</u>
2016	Real Estate	Business Loans	Consumer	Total
Beginning Balance	\$5,238,895	\$ 643,248	\$591,560	\$6,473,703
Provision for possible loan losses	401,971	(393,924)	(73,103)	(65,056)
Chargeoffs	2,567,499	8,035	65,311	2,640,845
Recoveries	43,767	16,265	74,962	134,994
Net chargeoffs	2,523,732	(8,230)	(9,651)	2,505,851
Ending Balance	<u>\$3,117,134</u>	<u>\$ 257,554</u>	<u>\$528,108</u>	<u>\$3,902,796</u>
Period end allowance allocated to:				
Loans individually evaluated for impairment	\$ 749,090	\$ 37,803	\$ —	\$ 786,893
Loans collectively evaluated for impairment	2,368,044	219,751	528,108	3,115,903
Ending Balance	<u>\$3,117,134</u>	<u>\$ 257,554</u>	<u>\$528,108</u>	<u>\$3,902,796</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

2015	Real Estate	Business Loans	Consumer	Total
Beginning Balance	\$5,202,151	\$ 873,815	\$466,360	\$6,542,326
Provision for possible loan losses	587,315	(228,982)	198,354	556,687
Chargeoffs	625,556	32,258	164,091	821,905
Recoveries	74,985	30,673	90,937	196,595
Net chargeoffs	550,571	1,585	73,154	625,310
Ending Balance	<u>\$5,238,895</u>	<u>\$ 643,248</u>	<u>\$591,560</u>	<u>\$6,473,703</u>
Period end allowance allocated to:				
Loans individually evaluated for impairment	\$2,996,708	\$ —	\$ —	\$2,996,708
Loans collectively evaluated for impairment	2,242,187	643,248	591,560	3,476,995
Ending Balance	<u>\$5,238,895</u>	<u>\$ 643,248</u>	<u>\$591,560</u>	<u>\$6,473,703</u>

The Company's recorded investment in loans as of December 31, 2017 and 2016 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows (in thousands):

2017	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	\$ 4,396	\$ —	\$ —	\$ 4,396
Loans collectively evaluated for impairment	326,093	59,126	15,990	401,209
	<u>\$330,489</u>	<u>\$59,126</u>	<u>\$15,990</u>	<u>\$405,605</u>
2016	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	\$ 6,938	\$ 126	\$ —	\$ 7,064
Loans collectively evaluated for impairment	313,722	54,400	19,466	387,588
	<u>\$320,660</u>	<u>\$54,526</u>	<u>\$19,466</u>	<u>\$394,652</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2017 and December 31, 2016:

	2017	2016
Land and buildings	\$27,610,855	\$25,022,259
Furniture, fixtures and equipment	15,954,422	15,632,170
	43,565,277	40,654,429
Less accumulated depreciation	22,993,726	21,990,345
Total	\$20,571,551	\$18,664,084

Depreciation expense for the years ended December 31, 2017, 2016 and 2015, respectively, was \$1,003,381, \$980,514 and \$1,040,207.

Note 6. Deposits

The composition of deposits as of December 31, 2017 and December 31, 2016 is as follows:

	2017	2016
Non-interest bearing	\$159,291,356	\$149,512,941
NOW and money market accounts	306,047,053	340,180,286
Savings deposits	77,784,876	73,745,005
Time deposits, \$250,000 or more	36,237,241	43,060,799
Other time deposits	141,324,973	153,653,309
Total	\$720,685,499	\$760,152,340

The scheduled maturities of time deposits at December 31, 2017 are as follows:

Year Ending December 31,	Amount
2018	\$140,515,847
2019	32,469,001
2020	2,978,646
2021	18,542
2022	1,580,178
	\$177,562,214

Interest expense for time deposits over \$250,000 was approximately \$243,000, \$236,000 and \$240,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Federal Home Loan Bank Advances

Pursuant to collateral agreements with the FHLB, advances are collateralized by all of the Bank's FHLB stock (\$1,740,200 included in other assets at December 31, 2017) and qualifying first mortgages and other loans. As of December 31, 2017, the balance in qualifying first mortgages and other loans was \$169,925,797. At December 31, 2017 and December 31, 2016, advances from the FHLB, along with their rate and maturity date, consist of the following:

Advance Amount at December 31,		Interest Rate	Final Maturity
2017	2016		
\$20,000,000	\$ 20,000,000	2.53	January 9, 2018
10,000,000	—	1.60	January 5, 2018

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

Year Due	Payment
2018	\$30,000,000
2019	—
2020	—
2021	—
2022	—

As of the date of this report, the Company had paid off all FHLB advances at their respective maturities and currently do not have any outstanding advances. Although the Company does not plan to secure another FHLB advance in the near future, it will do so if warranted by the liquidity needs at that time.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. 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 for the year ended December 31:

Other Income	2017	2016	2015
BOLI Insurance	\$ 528,425	\$ 511,854	\$ 568,000
Mortgage Loan Origination Income	340,395	451,476	362,611
Other Income	<u>446,144</u>	<u>385,586</u>	<u>1,228,796</u>
Total Other Income	<u>\$1,314,964</u>	<u>\$1,348,916</u>	<u>\$2,159,407</u>

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

Other Operating Expense	2017	2016	2015
Advertising	\$ 649,612	\$ 783,303	\$ 793,282
Office Supplies	1,008,541	702,705	591,177
Legal and Audit Fees	515,273	497,986	408,066
FDIC and State Assessment	417,047	702,705	751,979
Telephone Expense	529,747	446,628	431,761
Postage and Freight	544,722	499,611	478,764
Loan Collection Expense	471,779	380,093	205,549
Other Losses	463,415	445,792	243,172
Debit Card/ATM expense	413,058	378,748	337,476
Travel and Convention	254,594	254,229	247,416
Other expenses	<u>2,802,677</u>	<u>2,582,683</u>	<u>2,581,874</u>
Total Other Expense	<u>\$8,070,465</u>	<u>\$7,674,483</u>	<u>\$7,070,516</u>

Other losses in 2017, 2016 and 2015 include the write-down on OREO in the amount of \$234,042, \$220,419 and \$0, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes

The consolidated provision for income taxes consists of the following:

	2017	2016	2015
Currently payable			
Federal	\$ 257,886	\$ 884,743	\$2,288,766
State	(72,489)	53,015	276,519
	185,397	937,758	2,565,285
Deferred tax expense (benefit)	3,885,194	673,977	(86,251)
Income tax expense	<u>\$4,070,591</u>	<u>\$1,611,735</u>	<u>\$2,479,034</u>

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

	2017	2016	2015
Federal taxes based on statutory rate	\$ 2,643,207	\$ 2,838,452	\$3,423,098
State income taxes, net of federal benefit	(47,843)	46,972	182,503
Tax-exempt investment interest	(1,074,443)	(1,133,970)	(928,246)
Revaluation of net deferred tax assets as a result of the Tax Cuts and Jobs Act	2,558,859	—	—
Other, net	(9,189)	(139,719)	(198,321)
Income tax expense	<u>\$ 4,070,591</u>	<u>\$ 1,611,735</u>	<u>\$2,479,034</u>

The Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, among other things, permanently lowered the statutory federal corporate tax rate from 35% to 21%, effective for tax years including or beginning January 1, 2018. Under the guidance of ASC 740, “Income Taxes” (“ASC 740”), the Company revalued its net deferred tax assets on the date of enactment based on the reduction in the overall future tax benefit expected to be realized at the lower tax rate implemented by the new legislation. After reviewing the Company’s inventory of deferred tax assets and liabilities on the date of enactment and giving consideration to the future impact of the lower corporate tax rates and other provisions of the new legislation, the Company’s revaluation of its net deferred tax assets was \$2,588,859, which was included in “Income tax expense” in the Consolidated Statements of Income. Although in the normal course of business the Company is required to make estimates and assumptions for certain tax items which cannot be fully determined at period end, the Company did not identify items for which the income tax effects of the Tax Act have not been completed as of December 31, 2017 and, therefore, considers its accounting for the tax effects of the Tax Act on its deferred tax assets and liabilities to be complete as of December 31, 2017.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Continued

At December 31, 2017 and December 31, 2016, net deferred tax assets consist of the following:

	2017	2016
Deferred tax assets		
Allowance for loan losses	\$ 753,297	\$ 1,455,743
Deferred compensation liability	2,150,913	3,375,924
Alternative minimum tax	667,280	—
Unrealized loss on securities available-for-sale	2,734,500	6,376,702
Other	608,913	576,946
Total	6,914,903	11,785,315
Deferred tax liabilities		
Premises and equipment	1,358,165	1,042,833
Other	193,988	107,813
Total	1,552,153	1,150,646
Net deferred tax asset	<u>\$5,362,750</u>	<u>\$10,634,669</u>

The net deferred tax asset was \$5,362,750 and \$10,634,669 at December 31, 2017 and 2016, respectively. The Company has evaluated the need for a valuation allowance related to the above deferred tax assets and, based on the weight of the available evidence, has determined that it is more likely than not that all deferred tax assets will be realized.

As of December 31, 2017, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of December 31, 2017, the Company has not accrued for interest and penalties related to uncertain tax positions. It is the Company's policy to recognize interest or penalties related to income tax matters in income tax expense.

The Company and the Bank file a consolidated United States federal income tax return. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2014 through 2017. The Company and Bank's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2014 through 2017.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Summarized Financial Information of Citizens Holding Company

Summarized financial information of Citizens Holding Company, excluding the Bank, at December 31, 2017 and December 31, 2016, and for the years ended December 31, 2017, 2016 and 2015, is as follows:

Balance Sheets
December 31, 2017 and 2016

	2017	2016
Assets		
Cash (1)	\$ 2,369,429	\$ 1,444,895
Investment in bank subsidiary (1)	85,729,466	82,996,430
Other assets (1)	352,145	618,070
Total assets	<u>\$88,451,040</u>	<u>\$85,059,395</u>
Liabilities		
Other liabilities	\$ —	\$ —
Shareholders' equity	88,451,040	85,059,395
Total liabilities and shareholders' equity	<u>\$88,451,040</u>	<u>\$85,059,395</u>

(1) Fully or partially eliminates in consolidation.

Income Statements
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Interest income (1)	\$ 1,902	\$ 2,379	\$ 1,896
Other income			
Dividends from bank subsidiary (1)	5,472,000	4,104,001	5,568,900
Equity in undistributed earnings of bank subsidiary (1)	(1,348,757)	2,845,152	2,191,684
Other income	—	—	—
Total other income	<u>4,123,243</u>	<u>6,949,153</u>	<u>7,760,584</u>
Other expense	<u>459,935</u>	<u>355,256</u>	<u>275,744</u>
Income before income taxes	3,665,210	6,596,276	7,486,736
Income tax benefit	(38,338)	(140,378)	(102,165)
Net income	<u>\$ 3,703,548</u>	<u>\$6,736,654</u>	<u>\$7,588,901</u>

(1) Eliminates in consolidation.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Continued

Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Cash flows from operating activities			
Net income	\$ 3,703,548	\$ 6,736,654	\$ 7,588,901
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed loss (earnings) of the Bank	1,348,757	(2,845,152)	(2,191,684)
Stock compensation expense	210,735	186,425	117,300
(Decrease) increase in other assets	265,925	(143,602)	(103,168)
Net cash provided by operating activities	5,528,965	3,934,325	5,411,349
Cash flows from financing activities			
Dividends paid to shareholders	\$(4,697,056)	\$(4,686,325)	\$(4,540,748)
Repurchase of company stock	—	—	(390,205)
Excess tax benefit from equity grants	—	—	1,001
Proceeds from stock option exercises	92,625	—	27,000
Net cash used by financing activities	(4,604,431)	(4,686,325)	(4,902,952)
Net increase in cash	924,534	(752,000)	508,397
Cash, beginning of year	1,444,895	2,196,895	1,688,498
Cash, end of year	\$ 2,369,429	\$ 1,444,895	\$ 2,196,895

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. 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 shareholders, principal officers, their immediate families, and affiliated companies in which they are principal shareholders (commonly referred to as related parties). In management's opinion, such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties, and do not involve more than the normal risk of collectability at the time of the transaction.

Activity in related party loans is detailed in tabular form in Note 4 of the notes to the Financial Statements.

Deposits from related parties at December 31, 2017 and December 31, 2016 approximated \$6,482,221 and \$7,755,582, respectively.

Note 12. 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, 2017 and December 31, 2016, commitments related to unused lines of credit were \$46,405,869 and \$37,194,220, respectively, and standby letters of credit were \$2,842,010 and \$3,456,180, respectively. The fair value of such commitments is not materially different than stated values. As some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed credit worthiness of the borrower. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Continued

Interest Rate Risk

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

Legal Proceedings

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 business, prospects, financial position or results of operations, the final resolution of such proceedings could have a material adverse effect.

Concentration of Risk

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Lease Commitment and Total Rental Expense

The Company has operating leases under non-cancellable 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>
2018	\$ 292,169
2019	242,776
2020	216,528
2021	216,528
2022	216,528
	<u>\$1,184,529</u>

The total rental expense included in the income statements for the years ended December 31, 2017, 2016 and 2015 is \$107,418, \$118,805 and \$111,684, respectively.

Note 14. 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 50 percent matching contribution for up to a maximum of 3 percent of each participant's compensation, plus discretionary non-matching contributions. Employees are eligible after one year of service. For 2017, 2016 and 2015, the Company's contributions were \$538,495, \$520,488 and \$496,363, 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. Expenses related to this plan were \$189,966, \$183,824 and \$179,552 for the plan years ended December 31, 2017, 2016 and 2015, respectively.

The Company has also entered into deferred compensation arrangements with certain officers that provide for payments to such officers or their survivors after retirement. Life insurance policies have been purchased that may be used to fund all or a portion of the payments under these arrangements. The obligations of the Company under both the directors and officers deferred compensation arrangements are expensed on a systematic basis over the remaining expected service period of the individual directors and officers. Expenses related to this plan were \$521,991, \$584,319 and \$640,291 for the plan years ended December 31, 2017, 2016 and 2015, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. 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 adverse effect on the Company.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines involving quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total capital and Tier I capital to risk-weighted assets (as defined in the regulations) and Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2017, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Continued

Beginning January 1, 2015, the Bank began to comply with the Basel III rules, although the rules will not be fully phased-in until January 1, 2019. Among other things, the final Basel III rules will impact regulatory capital ratios of banking organizations in the following manner, when fully phased in:

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Continued

As of December 31, 2017 and 2016, 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 (amounts in thousands):

	<u>Actual</u>		<u>Minimum Capital Requirement to be Well Capitalized</u>		<u>Minimum Capital Requirement to be Adequately Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2017						
Citizens Holding Company						
Tier 1 leverage ratio	\$93,527	9.17%	\$51,005	5.00%	\$40,804	4.00%
Common Equity tier 1 capital ratio	93,527	9.17%	66,307	6.50%	45,905	4.50%
Tier 1 risk-based capital ratio	93,527	17.93%	41,737	8.00%	31,303	6.00%
Total risk-based capital ratio	96,546	18.51%	52,171	10.00%	41,737	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$89,243	8.75%	\$50,978	5.00%	\$40,782	4.00%
Common Equity tier 1 capital ratio	89,243	8.75%	66,271	6.50%	45,880	4.50%
Tier 1 risk-based capital ratio	89,243	17.12%	41,708	8.00%	31,281	6.00%
Total risk-based capital ratio	92,262	17.70%	52,136	10.00%	41,708	8.00%
December 31, 2016						
Citizens Holding Company						
Tier 1 leverage ratio	\$92,629	9.22%	\$50,258	5.00%	\$40,207	4.00%
Common Equity tier 1 capital ratio	92,629	9.22%	65,336	6.50%	45,232	4.50%
Tier 1 risk-based capital ratio	92,629	17.92%	41,354	8.00%	31,016	6.00%
Total risk-based capital ratio	96,532	18.67%	51,693	10.00%	41,354	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$90,566	9.02%	\$50,229	5.00%	\$40,183	4.00%
Common Equity tier 1 capital ratio	90,566	9.02%	65,298	6.50%	45,206	4.50%
Tier 1 risk-based capital ratio	90,566	17.53%	41,329	8.00%	30,997	6.00%
Total risk-based capital ratio	94,469	18.29%	51,661	10.00%	41,329	8.00%

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Fair Values of Financial Instruments

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

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

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value estimates, methods and assumptions used by the Company in estimating its fair value disclosures for financial instruments were:

Cash and Due from Banks and Interest Bearing Deposits with Banks

The carrying amounts reported in the balance sheet for these instruments approximate fair value because of their immediate and shorter-term maturities, which is considered to be three months or less at the time of purchase.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Investment Securities

Fair values for investment securities, available-for-sale and held-to-maturity, are based on quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments (Level 2). When neither quoted prices nor comparable instruments are available, unobservable inputs are needed to form an expected future cash flow analysis to establish fair values (Level 3).

The Company owns certain beneficial interests in one collateralized debt obligation secured by community bank trust preferred securities. These interests do not trade in a liquid market, and therefore, market quotes are not a reliable indicator of their ultimate realizability. The Company utilizes a discounted cash flow model using inputs of (1) market yields of trust-preferred securities as the discount rate and (2) expected cash flows which are estimated using assumptions related to defaults, deferrals and prepayments to determine the fair values of these beneficial interests. Many of the factors that adjust the timing and extent of cash flows are based on judgment and not directly observable in the markets. Therefore, these fair values are classified as Level 3 valuations for accounting and disclosure purposes. Since observable transactions in these securities are extremely rare, the Company uses assumptions that a market participant would use in valuing these instruments. These assumptions primarily include cash flow estimates and market discount rates. The cash flow estimates are sensitive to the assumptions related to the ability of the issuers to pay the underlying trust preferred securities according to their terms. The market discount rates depend on transactions, which are rare given the lack of interest of investors in these types of beneficial interests.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government agencies	\$ —	\$176,448,558	\$ —	\$176,448,558
Mortgage-backed securities	—	208,423,057	—	208,423,057
State, County, Municipals	—	117,100,535	—	117,100,535
Other Investments	—	—	3,074,227	3,074,227
	<u>\$ —</u>	<u>\$501,972,150</u>	<u>\$3,074,227</u>	<u>\$505,046,377</u>

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government agencies	\$ —	\$199,966,608	\$ —	\$199,966,608
Mortgage-backed securities	—	148,264,710	—	148,264,710
State, County, Municipals	—	144,922,150	—	144,922,150
Other Investments	—	—	2,971,106	2,971,106
	<u>\$ —</u>	<u>\$493,153,468</u>	<u>\$2,971,106</u>	<u>\$496,124,574</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following table reports the activity in assets measured at fair value on a recurring basis using significant unobservable inputs, during the years ended December 31, 2017 and December 31, 2016.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2017	2016
Balance at January 1	\$2,971,106	\$2,915,709
Principal payments received	(4,466)	(69,631)
Unrealized gains included in other comprehensive income	107,587	125,028
Balance at December 31	<u>\$3,074,227</u>	<u>\$2,971,106</u>

As of December 31, 2017 and December 31, 2016, management determined, based on the current credit ratings, known defaults and deferrals by the underlying banks and the degree to which future defaults and deferrals would be required to occur before the cash flow for the Company's tranche is negatively impacted, that no other-than-temporary impairment exists.

The Company recorded no gains or losses in earnings for the period that were attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

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.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Impaired Loans

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

Other real estate owned

OREO is comprised of commercial and residential real estate obtained in partial and total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is recorded at fair value of the real estate, less costs to sell. Subsequently, it may be necessary to record nonrecurring fair value adjustments for decline in fair value. Fair value, when recorded, is determined based on appraisals by qualified licensed appraisers and adjusted for management's estimates of costs to sell. As such, values for OREO are classified as Level 3.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following table presents assets measured at fair value on a nonrecurring basis during December 31, 2017 and 2016 and were still held at those respective dates:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<u>December 31, 2017</u>				
Impaired loans	\$ —	\$ —	\$ 544,502	\$ 544,502
Other real estate owned	—	—	1,307,250	1,307,250
	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,851,752</u>	<u>\$1,851,752</u>
<u>December 31, 2016</u>				
Impaired loans	\$ —	\$ —	\$3,591,516	\$3,591,516
Other real estate owned	—	—	1,893,949	1,893,949
	<u>\$ —</u>	<u>\$ —</u>	<u>\$5,485,465</u>	<u>\$5,485,465</u>

Impaired loans with a carrying value of \$4,396,293 and \$7,064,185 had an allocated allowance for loan losses of \$442,589 and \$786,893 at December 31, 2017 and December 31, 2016, respectively. The allocated allowance is based on the carrying value of the impaired loan and the fair value of the underlying collateral less estimated costs to sell.

After monitoring the carrying amounts for subsequent declines or impairment after foreclosure, management determined that a fair value adjustment to OREO in the amount of \$234,042 and \$220,419 was necessary and was recorded during the year ended December 31, 2017 and December 31, 2016, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Federal Funds Sold and Securities Sold Under Agreement to Repurchase

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 similar deposits to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Borrowings

The fair value of FHLB advances 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
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2017 and December 31, 2016:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2017					
Financial assets					
Cash and due from banks	\$ 17,962,990	\$ 17,962,990	\$ —	\$ —	\$ 17,962,990
Interest bearing deposits with banks	1,532,420	1,532,420	—	—	1,532,420
Securities available-for-sale	505,046,377	—	501,972,150	3,074,227	505,046,377
Net loans	402,390,574	—	—	401,706,081	401,706,081
Financial liabilities					
Deposits	\$720,685,499	\$543,123,284	\$ —	\$177,698,280	\$720,821,564
Federal Home Loan Bank advances	30,000,000	—	—	30,005,541	30,005,541
Securities Sold under Agreement to Repurchase	142,497,938	142,497,938	—	—	142,497,938
2016					
Financial assets					
Cash and due from banks	\$ 21,688,557	\$ 21,688,557	\$ —	\$ —	\$ 21,688,557
Interest bearing deposits with banks	48,603,182	48,603,182	—	—	48,603,182
Securities available-for-sale	496,124,574	—	493,153,468	2,971,106	496,124,574
Net loans	390,148,343	—	—	391,106,337	391,106,337
Financial liabilities					
Deposits	\$760,152,340	\$563,440,632	\$ —	\$196,859,851	\$760,300,483
Federal Home Loan Bank advances	20,000,000	—	—	20,283,999	20,283,999
Securities Sold under Agreement to Repurchase	150,282,913	150,282,913	—	—	150,282,913

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Stock Based Compensation

The Company has a directors' stock compensation plan and had an employees' long-term incentive plan. Under the directors' plan, the Company may grant options for up to 210,000 shares of common stock. The price of each option is equal to the market price determined as of the option grant date. Options granted are exercisable after six months and expire after 10 years. The employee plan expired on April 13, 2009, no options have been granted since this date and all previously granted options either expired or were exercised as of December 31, 2016. The options previously granted under the employee plan expire 10 years from the grant date. The exercise price is equal to the market price of the Company's stock on the date of grant.

The fair value of each option granted is estimated on the date of the grant using the Black-Sholes option-pricing model. No options were granted in 2017 or 2016, therefore no calculations were required in 2017 or 2016 to determine fair values.

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

During 2017, the Company's directors received restricted stock grants totaling 7,500 shares of common stock at a then market value of \$24.03 per share and in 2016 received 7,500 shares of common stock at a then market value of \$21.51 per share. These grants vest over a one-year period during which time the recipients have rights to vote the shares and to receive dividends. The grant date fair value of these shares granted in 2017 was \$180,225 and will be recognized over the one-year restriction period at a cost of \$15,019 per month less deferred taxes of \$3,747 per month. The grant date fair value of the shares granted in 2016 was \$161,325 and was recognized over the one-year restriction period at a cost of \$13,444 per month less deferred taxes of \$4,397 per month.

During 2015, 7,500 shares of restricted stock was granted to the Chief Executive Officer (CEO) that would vest according to a stock performance schedule over the next five years. The stock performance for the Company met the goal for 2016 and the CEO became vested in 20%, or 1,500 shares of the restricted stock at an expense of \$31,725. Again in 2017, the Company met 20% of its goal and the CEO became vested in an additional 1,500 shares of the restricted stock at an expense of \$36,810.

During 2017 and 2016, the Company recorded expense of \$210,735 and \$186,425 and recorded deferred taxes in the amounts of \$43,395 and \$57,700, respectively, related to all of the restricted shares.

At December 31, 2017, there were 12,000 shares non-vested with \$60,075 in unrecognized stock-based compensation expense related to the 2013 Plan.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Continued

Following is a summary of the status of the stock options remaining under the plans for the years ending December 31, 2017, 2016 and 2015:

	<u>Directors' Plan</u>		<u>Employees' Plan</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2015	96,000	\$ 21.30	46,500	\$ 22.06
Granted	—	—	—	—
Exercised	—	—	(1,500)	18.00
Expired	(9,000)	20.00	(22,000)	21.95
Outstanding at December 31, 2015	87,000	\$ 21.35	23,000	\$ 23.46
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	(9,000)	23.70	(23,000)	23.46
Outstanding at December 31, 2016	78,000	\$ 21.08	—	\$ —
Granted	—	—	—	—
Exercised	(6,000)	20.94	—	—
Expired	(9,000)	22.00	—	—
Outstanding at December 31, 2017	<u>63,000</u>	<u>\$ 20.96</u>	<u>—</u>	<u>\$ —</u>
Options exercisable at:				
December 31, 2017	<u>63,000</u>	<u>\$ 20.96</u>	<u>—</u>	<u>\$ —</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2017, 2016 and 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Continued

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

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>	<u>Weighted Average Price</u>	<u>Weighted Average Life Remaining</u>
\$15.01 to \$20.00	24,000	18.43	2 years, 6 months
\$20.01 to \$22.50	25,500	20.83	1 year, 11 months
\$22.51 and above	13,500	25.72	2 years, 4 months
Total	<u>63,000</u>	<u>\$ 20.96</u>	<u>2 years, 3 months</u>

The intrinsic value of options granted under the Directors' Plan at December 31, 2017 was \$169,785 and the intrinsic value of the Employees' Plan at December 31, 2017 was \$0 for a total intrinsic value at December 31, 2017 of \$169,785. Additionally, the total intrinsic value of options exercised during 2017 and 2016 was \$18,825 and \$0, respectively.

There were no options granted during 2017 under the 2013 Plan.

OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2017, 2016 and 2015. In this discussion, all references to the activities, operations or financial performance of the Company reflect the Company's activities, operations and financial performance through its wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), unless otherwise specifically noted. The Company's financial statements and accompanying notes should be read in conjunction with this Management's Discussion and Analysis.

Over the past three years, the Company has experienced growth in total assets and total deposits as management has capitalized on opportunities for organic growth within the Company's market area and the addition of a loan production office in 2016. Total assets increased over the three-year period by \$72.0 million or 7.8%. In the three-year period, net income decreased in the periods ended December 31, 2017 and 2016 after increasing in 2015. Although the cost of deposits remained stable in all three years, the interest received on earning assets continued to decrease and the net interest margin decreased in all three years. Loan loss provisions decreased in all three years from 2015 to 2017. Regardless of the decreases in the interest margins, management believes it has made appropriate provisions for loan losses.

During 2017 as compared to 2016, the Company's total assets decreased by \$32,116,079, or 3.1%, loans increased by \$12,242,231, or 3.1%, and total deposits decreased by \$39,466,841, or 5.2%. Loans increased in 2017 due to the addition of a loan production office in North Mississippi and the addition of additional loan officers in the Company's service area. Certificates of deposit ended 2017 at \$177,562,214, or 9.7% lower than 2016. Demand, NOW, savings and money market accounts increased \$20,314,947, or 3.6% from December 31, 2016 to \$543,123,285 at December 31, 2017.

During 2016 as compared to 2015, the Company's total assets increased by \$51,707,365, or 5.3%, loans decreased by \$32,960,048, or 7.8%, and total deposits increased by \$6,747,552, or 0.9%. Loans decreased in 2016 due to payments on large loans and soft loan demand in the Company's service area. Certificates of deposit ended 2016 at \$196,714,108, or 6.7% lower than 2015. Demand, NOW, savings and money market accounts increased \$20,797,919, or 3.8% from December 31, 2015 to \$563,438,232 at December 31, 2016.

In 2017, the Company's net income after taxes decreased to \$3,703,548, a decrease of \$3,033,106 from 2016. The bulk of this decline was an increase in income taxes that resulted from the Tax Cuts and Jobs Act of 2017 that was signed into law on December 22, 2017. This change in the corporate tax rate required the Company to revalue its net deferred tax assets at the new rate of 21% and to adjust those taxes through the income tax expense on the income statement. This resulted in an increase in the income tax expense related to this in the amount of \$2,588,859. Net interest income increased in 2017 primarily due to an increase in interest income on interest earning assets and a decrease in the provision for loan losses. An increase in non-interest income partially offset the increase in non-interest expense which contributed to the

decrease in net income for 2017. Net income for 2017 produced, on a fully diluted basis after the deferred tax asset adjustment, earnings per share of \$1.38 compared to \$0.76 in 2017 and \$1.38 for 2016.

In 2016, the Company's net income after taxes decreased to \$6,736,654, a decrease of \$852,247 from 2015. Net interest income decreased in 2016 primarily due to the reduction in interest income on loans. A decrease in non-interest income and the increase in non-interest expense also contributed to the decrease in net income for 2016. Net income for 2016 produced, on a fully diluted basis, earnings per share of \$1.38 compared to \$1.56 in 2015 and \$1.53 for 2014.

In 2015, the Company's net income after taxes increased to \$7,588,901, an increase of \$139,142 from 2014. Net interest income decreased in 2015 primarily due to the reduction in interest income in both loans and investment securities. This decrease was offset by the decrease in non-interest expense and the increase in non-interest income. Net income for 2015 produced, on a fully diluted basis, earnings per share of \$1.56 compared to \$1.53 in 2014 and \$1.47 for 2013.

The Company's return on average assets ("ROA") was 0.62% in 2017, compared to 0.86% in 2016 and 0.80% in 2015. The Company's return on average equity ("ROE") was 7.01% in 2017, 7.34% in 2016 and 9.01% in 2015. During these periods, leverage capital ratios (the ratio of equity to average total assets) decreased from 9.26% in 2015 to 9.22% in 2016 and decreased to 9.17% in 2017. The ROE in 2017, 2016 and 2015 is a function of the level of net income and equity balances during those years. The changes in ROA were also a result of the Company's income increasing in 2015 before decreasing in 2016 and 2017 and also affected by the increase in total assets during these time periods. The Company set the annual dividend payout rate to approximately 126.32% of 2017 earnings per share, as compared to 69.57% in 2016 and 59.62% in 2015. The leverage capital ratio of 9.17% in 2017 remains above the regulatory requirement of 5% to be considered "well capitalized" under applicable Federal Deposit Insurance Corporation (the "FDIC") guidelines for the Bank.

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

Liquidity is discussed in more detail beginning on page 90 of this report under the heading, *Liquidity and Rate Sensitivity*. The Company did not have any commitments at December 31, 2017 that would require a material expenditure of capital resources.

The Company is not aware of any developments that would have material impact on its revenues or net income. Interest rate increases are being projected for 2018 and beyond but it is difficult to know the frequency and size of these increases. A measured increase in interest rates could have the effect of increasing revenues and net income.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses

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

Other Than Temporary Impairment

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

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

Other Real Estate

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

Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead reviewed for impairment when there is evidence to suggest that the estimated fair value of the net assets is lower than the carrying value, or at a minimum of once a year. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill was the only intangible asset with an indefinite life on the Company's balance sheet. Other intangible assets consisted of core deposit and acquired customer relationship intangible assets arising from the Company's acquisition of the Citizens Bank and Trust Company of Louisville, Mississippi. These assets are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which were determined to be 15 years.

Stock Based Compensation

The Company recognizes stock compensation expenses in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"). 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. The Company utilizes the Black-Scholes valuation model to determine the fair value of stock options. The Company has elected to account for forfeitures in compensation cost when they occur as permitted under the guidance in ASC 718, "Compensation—Stock Compensation" ("ASC 718"). The Black-Scholes model requires the use of certain assumptions, including the volatility of the Company's stock price, 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 17, "Stock Based Compensation" to the Company's Consolidated Financial Statements included in this Annual Report.

Income Taxes

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

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

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

SELECTED FINANCIAL DATA

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

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

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

	2017	2016	2015	2014	2013
Summary of Earnings					
Total Interest Income	\$ 30,505	\$ 30,169	\$ 30,965	\$ 31,380	\$ 32,116
Total Interest Expense	3,343	3,098	3,077	3,018	4,080
Provision for loan losses	(543)	(65)	556	923	2,204
Non-interest income	8,296	7,692	8,327	8,163	7,816
Non-interest expense	28,227	26,480	25,591	26,324	24,728
Income tax expense	4,070	1,612	2,479	1,828	1,770
Net Income	3,704	6,737	7,589	7,450	7,150
Per Share Data					
Earnings-basic	\$ 0.76	\$ 1.38	\$ 1.56	\$ 1.53	\$ 1.47
Earnings-diluted	0.76	1.38	1.56	1.53	1.47
Cash dividends	0.96	0.96	0.93	0.89	0.88
Book value at year end	18.07	17.42	17.73	16.78	13.61
Selected Year End Actual Balances					
Loans, net of unearned income	\$ 406,605	\$ 394,051	\$429,582	\$390,960	\$392,183
Allowance for loan losses	3,019	3,903	6,474	6,542	8,077
Investment Securities	505,046	496,125	428,308	386,562	398,176
Earning assets	910,283	935,957	894,765	833,845	785,592
Total assets	993,096	1,025,212	973,505	921,061	873,069
Deposits	720,685	760,152	753,405	696,094	654,630
Long term borrowings	20,000	20,000	20,000	20,000	33,626
Shareholders' equity	88,451	85,059	86,425	81,858	66,266
Selected Year End Average Balances					
Loans, net of unearned income	\$ 395,217	\$ 409,367	\$412,161	\$389,720	\$371,200
Allowance for loan losses	3,586	5,051	6,637	7,902	7,078
Investment securities	511,133	475,714	421,729	396,806	419,461
Earning assets	929,260	917,366	863,830	798,432	801,549
Total assets	1,013,177	996,266	945,270	884,688	882,285
Deposits	762,983	766,264	725,116	682,444	650,931
Long term borrowings	20,000	20,042	20,056	35,593	58,192
Shareholders' equity	90,230	91,766	84,250	73,219	79,458

	2017	2016	2015	2014	2013
Selected Ratios					
Return on average assets	0.62%	0.68%	0.80%	0.84%	0.81%
Return on average equity	7.01%	7.34%	9.01%	10.17%	9.00%
Dividend payout ratio	126.32%	69.57%	59.62%	58.17%	59.86%
Equity to year end assets	8.91%	8.30%	8.88%	8.89%	7.59%
Total risk-based capital to risk-adjusted assets	18.51%	18.67%	17.54%	17.84%	17.49%
Leverage capital ratio	9.17%	9.22%	9.26%	9.60%	9.63%
Efficiency ratio	76.35%	71.49%	68.69%	70.09%	67.52%

NET INCOME

Net income for 2017 decreased by 45.0% to \$3,703,548 or \$0.76 per share-basic and -diluted, from \$6,736,654 or \$1.38 per share-basic and -diluted for 2016. The provision for loan losses for 2017 was a negative \$543,138 as compared to negative \$65,056 in 2016. The increase in the negative loan loss provision for 2017 was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions and low level of prior years' loan losses offset by the increase in the balance of loans outstanding. Non-interest income increased by \$604,544, or 7.9%, and non-interest expense increased by \$1,747,768 or 6.6%, in 2017. Non-interest income for 2017 increased primarily due to an increase in other service charges and fees. Non-interest expense increased due to an increase in salaries and benefits, loan collection expense and office supplies.

Net income for 2016 decreased by 11.2% to \$6,736,656 or \$1.38 per share-basic and -diluted, from \$7,588,901 or \$1.56 per share-basic and -diluted for 2015. The provision for loan losses for 2016 was a negative \$65,056 as compared to positive \$556,687 in 2015. The decrease in the loan loss provision for 2016 was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions and the decrease in the balance of loans outstanding. Non-interest income decreased by \$636,109, or 7.6%, and non-interest expense increased by \$888,684 or 3.5%, in 2016. Non-interest income for 2016 decreased primarily due to a decrease in gains from the sale of repossessed assets offset partially by an increase in other service charges and fees. Non-interest expense increased due to an increase in salaries and benefits, writedowns on other real estate, loan collection expense and office supplies.

Net income for 2015 increased by 1.9% to \$7,588,901 or \$1.56 per share-basic and -diluted, from \$7,449,759, or \$1.53 per share-basic and -diluted for 2014. The provision for loan losses for 2015 was \$556,687 as compared to \$923,397 in 2014. The decrease in the loan loss provision for 2015 was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. Non-interest income increased by \$164,955, or 2.0%, and non-interest expense decreased by \$732,745 or 2.8%, in 2015. Non-interest income for 2015 increased primarily due to an increase in ATM transaction service charges offset partially by a decrease in overdraft charges. Non-interest expense decreased due to a decrease in writedowns on other real estate, loan collection expense, depreciation expense, office supplies and increases in salaries and benefits.

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 \$28,339,000, \$28,270,000 and \$28,855,000 for the years 2017, 2016 and 2015, respectively. Net interest margin was 3.01%, 3.07% and 3.33% for the same periods. During 2017, the yields on interest earning assets declined and the rates paid on interest bearing deposits increased slightly. In 2017 as compared to 2016, interest-bearing assets increased by \$21.9 million, or 2.4% and interest-bearing liabilities increased by \$13.1 million, or 1.7%. For the year ended December 31, 2017, the average yield on earnings assets was 3.36%, a decrease of 4 basis points compared to the average yield at December 31, 2016. The average rate paid on interest-bearing liabilities was 0.44%, an increase of 3 basis points compared to the average rate at December 31, 2016.

During 2016, the yields on interest earning assets declined less than the rates paid on interest bearing deposits. In 2016 as compared to 2015, interest-bearing assets increased by \$51.3 million, or 5.9% and interest-bearing liabilities increased by \$39.6 million, or 5.6%. For the year ended December 31, 2016, the average yield on earnings assets was 3.40%, a decrease of 28 basis points compared to the average yield at December 31, 2015. The average rate paid on interest-bearing liabilities was 0.41%, a decrease of 2 basis points compared to the average rate at December 31, 2015.

During 2015, the yields on interest earning assets declined less than the rates paid on interest bearing deposits with the largest decrease occurring in the rates paid on certificates of deposit. In 2015 as compared to 2014, interest-bearing assets increased by \$50.4 million, or 6.2% and interest-bearing liabilities increased by \$41.088 million, or 6.2%. For the year ended December 31, 2015, the average yield on earnings assets was 3.68%, a decrease of 28 basis points compared to the average yield at December 31, 2014. The average rate paid on interest-bearing liabilities was 0.43%, a decrease of 2 basis points compared to the average rate at December 31, 2014.

During this three-year period, loans outstanding increased in 2015, declined in 2016 and rose again in 2017. Loans generally provide the Company with yields that are greater than the yields on typical investment securities.

Table 2 – Average Balance Sheets and Interest Rates sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the fiscal years ended December 31, 2017, 2016 and 2015.

TABLE 2 – AVERAGE BALANCE SHEETS AND INTEREST RATES
(in thousands)

	Average Balance			Income/Expense			Average Yield/Rate		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Loans:									
Loans, net of unearned ⁽¹⁾	\$ 394,684	\$408,922	\$411,687	\$18,782	\$19,012	\$20,040	4.76%	4.65%	5.16%
Investment Securities									
Taxable	392,626	353,794	335,538	8,178	7,590	8,027	2.08%	2.15%	2.39%
Tax-exempt	129,709	121,358	85,597	4,448	4,581	3,770	3.43%	3.77%	4.40%
Total Investment Securities	522,335	475,152	421,135	12,626	12,171	11,797	2.42%	2.56%	2.80%
Federal Funds Sold and Other	24,999	36,071	35,336	274	185	95	1.09%	0.51%	0.27%
Total Interest Earning Assets ⁽¹⁾⁽²⁾	942,018	920,145	868,158	31,682	31,368	31,932	3.36%	3.40%	3.68%
Non-Earning Assets	71,159	76,121	77,112						
Total Assets	\$1,013,177	\$996,266	\$945,270						
Deposits:									
Interest-bearing Demand									
Deposits ⁽³⁾	\$ 347,260	\$345,438	\$300,636	\$ 806	\$ 730	\$ 693	0.23%	0.21%	0.23%
Savings	74,923	72,127	64,967	133	122	111	0.14%	0.12%	0.17%
Time	189,359	202,261	216,488	983	992	1,040	0.52%	0.49%	0.48%
Total Deposits	611,542	619,826	582,091	1,922	1,844	1,844	0.31%	0.30%	0.32%
Borrowed Funds									
Short-term Borrowings	130,248	108,884	106,988	907	740	720	0.70%	0.68%	0.67%
Long-term Borrowings	20,000	20,000	20,000	514	514	513	2.53%	2.53%	2.53%
Total Borrowed Funds	150,248	128,884	126,988	1,421	1,254	1,233	0.95%	0.97%	0.97%
Total Interest-Bearing Liabilities ⁽³⁾	761,790	748,710	709,079	3,343	3,098	3,077	0.44%	0.41%	0.43%
Non-Interest Bearing Liabilities									
Demand Deposits	150,689	146,438	142,322						
Other Liabilities	10,468	9,352	9,619						
Shareholders' Equity	90,230	91,766	84,250						
Total Liabilities and Shareholders' Equity	\$1,013,177	\$996,266	\$945,270						
Interest Rate Spread							2.92%	2.99%	3.24%
Net Interest Margin				\$28,339	\$28,270	\$28,855	3.01%	3.07%	3.33%
Less									
Tax Equivalent Adjustment				1,177	1,199	967			
Net Interest Income				\$27,162	\$27,071	\$27,888			

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

Table 3 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2017, 2016, and 2015.

TABLE 3 – NET AVERAGE INTEREST EARNING ASSETS

	(in thousands)		
	2017	2016	2015
Average interest earning assets	\$942,018	\$920,145	\$868,158
Average interest bearing liabilities	761,790	748,710	709,079
Net average interest earning assets	<u>\$180,228</u>	<u>\$171,435</u>	<u>\$159,079</u>

Table 4 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2015 through 2017. 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

	(in thousands)					
	2017 Change from 2016			2016 Change from 2015		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$(678)	448	\$(230)	\$ (129)	\$ (899)	\$(1,028)
Taxable Securities	809	(221)	588	392	(829)	(437)
Non-Taxable Securities	286	(419)	(133)	1,350	(539)	811
Federal Funds Sold and Other	(121)	210	89	4	86	90
TOTAL INTEREST INCOME	\$ 297	\$ 17	\$ 314	\$1,617	\$ (2,181)	\$ (564)
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 4	72	76	\$ 95	\$ (58)	37
Savings Deposits	4	7	11	9	2	11
Time Deposits	(67)	58	(9)	(70)	22	(48)
Short-term borrowings	149	18	167	13	7	20
Long-term borrowings	—	—	—	—	1	1
TOTAL INTEREST EXPENSE	\$ 90	\$ 155	245	\$ 47	\$ (26)	21
NET INTEREST INCOME	\$ 207	\$(138)	\$ 69	\$1,570	\$(2,155)	\$ (585)

LOANS

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

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

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

Loan demand in the Company's market improved after economic conditions began to show some improvement. Although the Company continues to face intense competition for available loans from other financial institutions and the current economic conditions have improved slightly, the Company was able in 2015 and 2017 to increase the amount of loans outstanding. The impact on the housing market caused by the opening of a casino on the nearby Choctaw Indian Reservation in 1995 has lessened. Real estate mortgage loans originated by the Company decreased by 1.9%, or \$1,887,518 in 2017, by 6.0%, or \$6,233,615, in 2016 and by 0.1%, or \$124,295, in 2015 when compared to the prior year. The decrease in mortgage loans in all years reflects the weakness in the local housing markets and customers desire to lock in mortgage rates with a 30 year maturity.

Real estate construction loans increased by \$2,130,518, or 9.0% in 2017 to \$25,9923,036 when compared to the \$23,792,518 at December 31, 2016. Real estate construction loans are usually short term in nature and are dependent on construction activity in the Company's service area. There is also a large amount of demand for these types of loans.

Commercial and agricultural loans decreased by \$14,186,547, or 5.6% in 2017, increased by \$12,882,886 or 4.9% in 2016 and decreased by \$48,886,679, or 22.5% in 2015. Commercial, financial and agricultural loans are the largest segment of the loan portfolio and, by nature, bear a higher degree of risk. Management believes the lending practices, policies and procedures applicable to this loan category are adequate to manage any risk represented by the growth of the loans in this category.

Consumer loans decreased by \$3,475,943, or 17.9% in 2017 and \$7,159,006, or 26.9% in 2016 and after increasing \$110,443, or 0.4% in 2015, 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.

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

TABLE 5 – LOANS OUTSTANDING

(in thousands)

	AT DECEMBER 31,				
	2017	2016	2015	2014	2013
Commercial, financial and agricultural	\$267,767	\$253,581	\$266,464	\$217,577	\$233,632
Real estate - construction	25,923	23,793	33,133	43,233	27,224
Real estate - mortgage	95,925	97,812	104,046	104,170	105,489
Consumer	15,990	19,466	26,625	26,515	26,323
TOTAL LOANS	\$405,605	\$394,652	\$430,268	\$391,495	\$392,668

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

TABLE 6 – LOAN LIQUIDITY
LOAN MATURITIES AT DECEMBER 31, 2017

	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	Total
Commercial, financial and agricultural	\$61,833	\$183,309	\$22,625	\$267,767
Real estate - construction	9,486	13,407	3,030	\$ 25,923
Real estate - mortgage	16,278	62,729	16,918	\$ 95,925
Consumer	7,212	8,392	386	\$ 15,990
Total loans	\$94,809	\$267,837	\$42,959	\$405,605

SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$240,671	\$21,409
Variable rates	27,166	21,550
Total loans	\$267,837	\$42,959

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

PROVISION FOR LOAN LOSSES AND ASSET QUALITY

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

The allowance for loan losses is established through a provision for loan losses charged against net income. This expense is determined by a number of factors, including historical loan losses, assessment of specific credit weaknesses within the portfolio, assessment of the prevailing economic climate, and other factors that may affect the overall condition of the loan portfolio. Management utilized these factors to determine the provision for loan losses for each of 2015, 2016 and 2017. The ratio of net loans charged off to average loans was 0.09% in 2017, 0.61% in 2016 and 0.15% in 2015. 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 2017 was a negative \$543,138 compared to a negative \$65,056 in 2016 and \$556,687 in 2015. The decrease in the provision for all three years was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. The Company uses a model that takes into account historical charge-offs and recoveries and applies that to certain loan segments of the Company's portfolio. At the end of 2017, the total allowance for loan losses was \$3,019,228, an amount that management believes to be sufficient to cover estimated probable losses in the loan portfolio.

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

TABLE 7 – ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(in thousands except for percentage amounts)

	2017	2016	2015	2014	2013
BALANCE AT BEGINNING OF YEAR	\$ 3,903	\$ 6,474	\$ 6,542	\$ 8,078	\$ 6,954
LOANS CHARGED-OFF					
Commercial, financial and agricultural	166	2,397	457	2,213	915
Real estate - construction	112	—	—	249	1
Real estate - mortgage	57	179	201	149	223
Consumer	102	65	164	121	135
TOTAL CHARGE-OFFS	437	2,641	822	2,732	1,274
CHARGE-OFFS RECOVERED					
Commercial, financial and agricultural	2	18	45	79	38
Real estate - construction	14	18	9	7	16
Real estate - mortgage	16	24	52	126	71
Consumer	64	75	91	61	69
TOTAL RECOVERIES	96	135	197	273	194
Net loans charged-off	341	2,506	625	2,459	1,080
Additions charged to operating expense	(543)	(65)	557	923	2,204
BALANCE AT END OF YEAR	<u>\$ 3,019</u>	<u>\$ 3,903</u>	<u>\$ 6,474</u>	<u>\$ 6,542</u>	<u>\$ 8,078</u>
Loans, net of unearned, at year end	\$405,410	\$394,051	\$429,582	\$390,960	\$392,183
Ratio of allowance to loans at year end	0.74%	0.99%	1.51%	1.67%	2.06%
Average loans - net of unearned	\$395,216	\$409,367	\$412,172	\$389,720	\$371,200
Ratio of net loans charged-off to average loans	0.09%	0.61%	0.15%	0.63%	0.29%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	AT DECEMBER 31,				
	2017	2016	2015	2014	2013
Commercial, financial and agricultural	\$1,942	\$2,434	\$4,710	\$4,352	\$5,565
Real estate - construction	139	120	402	806	495
Real estate - mortgage	417	821	770	918	1,413
Consumer	521	528	592	466	604
Total	<u>\$3,019</u>	<u>\$3,903</u>	<u>\$6,474</u>	<u>\$6,542</u>	<u>\$8,077</u>

COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2017	2016	2015	2014	2013
Commercial, financial and agricultural	66.02%	64.25%	61.93%	55.58%	59.50%
Real estate - construction	6.39%	6.03%	7.70%	11.04%	6.93%
Real estate - mortgage	23.65%	24.78%	24.18%	26.61%	26.86%
Consumer	3.94%	4.93%	6.19%	6.77%	6.70%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Loan balances outstanding, as illustrated in Table 5, increased in 2017 even though the Company maintained tight credit standards and the competition for loans was strong. Commercial, financial and agricultural loans along with real estate construction loans increased and real estate mortgage and consumer loans decreased. In 2016 as compared to 2015, loans in all classifications decreased. The allowance for loan losses is allocated to the various categories based on the historical loss percentage for each segment of loan and any specific reserves that might be assigned to those loans.

Non-performing assets and the relative percentages of such assets to loan balances are presented in Table 8 – Non-performing Assets. Non-performing loans include non-accrual loans, loans delinquent 90 days or more based on contractual terms and troubled debt restructurings. Management classifies loans as non-accrual when it believes that collection of interest is doubtful. This typically occurs when payments are past due over 90 days, unless the loans are well secured and in the process of collection. Another measurement of asset quality is OREO, which represents properties acquired by the Company through foreclosure following loan defaults by customers. The percentage of OREO to total loans at December 31, 2017 was 0.98% compared to 1.13% in 2016. OREO decreased in 2017 after increasing in 2016 due to more foreclosures in 2016 and by the sale of several parcels that were acquired in foreclosure in previous years.

Loans on non-accrual status amounted to \$7,582,017 in 2017 as compared to \$8,879,393 in 2016 and \$14,422,613 in 2015. Interest income forgone on loans classified as non-accrual in 2017 was \$412,915 as compared to \$651,560 in 2016 and \$732,268 in 2015. Upon the classification of a loan as non-accrual, all interest accrued on the loan prior to the time it is classified as non-accrual is reversed and interest accruals are suspended until such time that the loan is in compliance with its terms and deemed collectable.

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

	2017	2016	As of December 31, 2015	2014	2013
PRINCIPAL BALANCE					
Non-accrual	\$ 7,582	\$ 8,879	\$14,423	\$11,854	\$13,592
Accruing loans 90 days or more past due	807	206	76	880	2,095
Troubled debt restructurings	3,047	3,288	3,858	4,741	7,119
TOTAL NON-PERFORMING LOANS	\$11,436	\$12,373	\$18,357	\$17,475	\$22,806
Income on non-accrual loans not recorded	\$ 413	\$ 652	\$ 732	\$ 820	\$ 814
Non-performing as a percent of loans	2.82%	3.14%	4.26%	4.46%	5.81%
Other real estate owned	\$ 3,980	\$ 4,443	\$ 3,573	\$ 4,052	\$ 3,751
OREO as a percent of loans	0.98%	1.13%	0.83%	1.04%	0.96%
Allowance as a percent of non-performing loans	26.40%	31.54%	35.27%	37.44%	35.42%

ASC Subtopic 310-10, *Loan Impairments* outlines the guidance for evaluating impaired loans. These statements changed the methods of estimating the loan loss allowance for problem loans. In general, when management determines that principal and interest due under the contractual terms of a loan are not fully collectible, management must value the loan using discounted future expected cash flows. Management evaluates the Company's loans for impairment under ASC Subtopic 310-10. The balances of impaired (including non-accruals) loans for the years 2017, 2016 and 2015 were \$4,396,293, \$7,064,185 and \$15,581,418, respectively.

This table details the impaired loans by category for years ending 2017, 2016 and 2015.

		AT DECEMBER 31,	
	2017	2016	2015
Commercial, financial and agricultural	\$4,093,052	\$5,615,902	\$12,368,556
Real estate - construction	—	—	75,070
Real estate - mortgage	303,241	1,448,283	3,102,372
Consumer	—	—	35,420
Total loans	\$4,396,293	\$7,064,185	\$15,581,418

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

At December 31, 2017, loans totaling \$18,700,847 were included on the Company’s watch list compared to \$23,720,295 at December 31, 2016. 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, 2017, the Company classified its securities as AFS. AFS securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. The Company does not hold any securities classified as held to maturity or held for trading purposes.

Table 9 – Securities and Securities Maturity Schedule summarizes the amortized cost of securities from 2015 through 2017 and the maturity distribution at December 31, 2017, by classification.

TABLE 9 – SECURITIES
(in thousands)

	2017	2016	2015
SECURITIES AVAILABLE-FOR-SALE			
U. S. Government Agencies	\$180,648	\$207,081	\$ 83,826
Mortgage Backed Securities	213,707	152,766	92,603
State, County and Municipal Obligations	118,786	150,504	87,948
Other Securities	2,865	2,870	2,931
TOTAL SECURITIES AVAILABLE-FOR-SALE	\$516,006	\$513,221	\$267,308
	2017	2016	2015
SECURITIES HELD-TO-MATURITY			
U. S. Government Agencies	\$ —	\$ —	\$161,043
TOTAL SECURITIES HELD-TO-MATURITY	\$ —	\$ —	\$161,043

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)	\$ —	0.00%	\$59,000	1.86%	\$40,701	1.96%	\$ 80,947	2.21%
Mortgage Backed Securities	—	0.00%	5,051	2.16%	—	0.00%	208,656	2.29%
State, County and Municipal(2)	3,399	6.95%	11,836	4.94%	14,991	3.84%	88,560	3.20%
Other Securities	—	0.00%	—	0.00%	—	0.00%	2,865	2.78%
TOTAL AVAILABLE-FOR-SALE	\$3,399	5.13%	\$75,887	5.05%	\$55,692	3.12%	\$381,028	3.04%

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

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

The change in the carrying value of the AFS portfolio is due to market value fluctuations resulting from the changing interest rate environment during 2017. This change is not used in the Tier 1 capital calculation.

As detailed in Table 9, the security portfolio increased \$2.8 million or 0.5% in 2017, increased \$84.9 million or 19.8% in 2016 and decreased \$43.1 million or 11.2% in 2015. The Company strives to maximize the yields on its portfolio while balancing pledging needs and managing risk. The Company seeks to invest most of its funds not needed for loan demand or the reduction of other borrowings in higher yielding securities and not in the lower yielding federal funds sold.

DEPOSITS

The Company offers a wide variety of deposit services to individual and commercial customers, such as non-interest-bearing and interest-bearing checking accounts, savings accounts, money market deposit accounts and time deposits. The deposit base is the Company's major funding source for earning assets. Time deposits decreased in 2017 and 2016 due to customers desiring to stay short and liquid with their deposits. During this time, all other segments of deposits increased.

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

TABLE 10 – DEPOSIT INFORMATION

	(in thousands, except percentages)					
	2017		2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$150,689		\$146,438		\$142,322	
Interest-bearing demand	347,260	0.23%	345,438	0.21%	300,636	0.23%
Savings	74,923	0.14%	71,127	0.12%	65,670	0.13%
Time deposits	189,359	0.52%	202,261	0.49%	216,488	0.48%
	<u>\$762,231</u>	<u>0.25%</u>	<u>\$765,264</u>	<u>0.25%</u>	<u>\$725,116</u>	<u>0.25%</u>

MATURITY RANGES OF TIME DEPOSITS
OF \$100,000 OR MORE

	AS OF DECEMBER 31, 2017
3 months or less	\$ 44,424
3 through 12 months	96,092
1 year to 3 years	35,412
over 3 years	1,635
	<u>\$ 177,563</u>

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

BORROWINGS

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

TABLE 11 - SHORT-TERM BORROWINGS
(in thousands)

	2017	As of December 31, 2016	2015
Short-term borrowings			
Year-end balance	\$153,998	\$150,283	\$104,298
Weighted average rate	0.75%	0.68%	0.68%
Maximum month-end balance	\$203,549	\$203,549	\$136,833
Year to date average balance	\$130,248	\$108,884	\$106,928
Weighted average rate	0.75%	0.68%	0.66%

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, 2017, the Company had the capacity to borrow up to \$214,925,797 from the FHLB and other financial institutions in the form of Federal Funds Purchased. The Company generally will use these types of borrowings if loan demand is greater than the growth in deposits. At December 31, 2017 the Company had borrowed \$30,000,000 from the FHLB \$1,500,000 in Federal Funds Purchased compared to \$20,000,000 borrowed from the FHLB and \$0 borrowed in Federal Funds Purchased at December 31, 2016. In 2017, the balances in Securities Sold Under Agreement to Repurchase decreased \$7,784,975, or 5.2% to \$142,497,938. In 2016, these balances increased to \$150,282,913, an increase of \$45,984,730, or 44.1%.

At the end of 2017, the Company had long-term debt in the amount of \$20,000,000 to the FHLB for advances and \$24,755 payable to the State of Mississippi for advances under the Mississippi Agribusiness Enterprise Loan Program. This program provides interest-free loans to banks to fund loans to qualifying farmers. Farmers that qualify for the program receive 20% of their loan at zero interest. When the loan is repaid, the State of Mississippi receives 20% of the principal payment, which is equal to the amount advanced by the state, and the Company retains the balance of the principal payment.

The remaining maturity schedule of the long-term debt at December 31, 2017 is listed below.

	(in thousands) 2017
Less than one year	\$ 20,000
One year to three years	4
Over three years	21
Total long-term borrowings	<u>\$ 20,025</u>

NON-INTEREST INCOME AND EXPENSE

Table 12 - Non-Interest Income and Expense illustrates the Company's non-interest income and expense from 2015 through 2017 and percentage changes between such years.

TABLE 12 - NON-INTEREST INCOME & EXPENSE
(in thousands)

	2017	% CHANGE FROM '16	2016	% CHANGE FROM '15	2015
NON-INTEREST INCOME					
Service charges on deposit accounts	\$ 4,239	11.88%	\$ 3,789	-2.02%	\$ 3,867
Other operating income	<u>4,057</u>	<u>3.95%</u>	<u>3,903</u>	<u>-12.49%</u>	<u>4,460</u>
TOTAL NON-INTEREST INCOME	<u>\$ 8,296</u>	<u>7.85%</u>	<u>\$ 7,692</u>	<u>-7.63%</u>	<u>\$ 8,327</u>
NON-INTEREST EXPENSE					
Salaries and employee benefits	\$14,772	7.85%	\$13,697	3.02%	\$13,295
Occupancy expense, including equipment	5,385	5.42%	5,108	-2.24%	5,225
Other operating expense	<u>8,070</u>	<u>5.15%</u>	<u>7,675</u>	<u>8.54%</u>	<u>7,071</u>
TOTAL NON-INTEREST EXPENSE	<u>\$28,227</u>	<u>6.60%</u>	<u>\$26,480</u>	<u>3.47%</u>	<u>\$25,591</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 and title insurance service fees.

During 2017 as compared to 2016, non-interest income increased by \$604,544, or 7.86%, when compared to 2016. An increase in other income and service charges on deposit accounts and in other service charges and fees was partially offset by a decrease in net gains on the sale of securities and other income.

During 2016 as compared to 2015, non-interest income decreased by \$649,394, or 7.79%, when compared to 2015. A decrease in other income and service charges on deposit accounts was partially offset by an increase in other service charges and fees and net gains on the sale of securities. Other income was down primarily due to a large recovery on the sale of repossessed assets in 2015 was not duplicated in 2016.

During 2015 as compared to 2014, non-interest income increased by \$164,955, or 2.01%, when compared to 2014. An increase in other income partially offset a decrease in service charge income from checking accounts.

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 2017 as compared to 2016, non-interest expense increased by \$1,747,768, or 6.6%, to \$28,227,419. Included in this increase was an increase in salaries and benefits in the amount of \$1,075,453, or 7.9% and in other expense in the amount of \$395,982, or 5.2% and an increase in occupancy expense in the amount of \$276,333, or 5.4%. The increase in other expense was in large part due to increased loan collection expense, increase in office supply expense caused by upgrades to bank branches and writedowns on other real estate.

In 2016 as compared to 2015, non-interest expense increased by \$888,683, or 3.5%, to \$26,479,650. Included in this increase was an increase in salaries and benefits in the amount of \$401,774, or 3.0% and in other expense in the amount of \$603,966, or 8.5% partially offset by a decrease in occupancy expense in the amount of \$117,057, or 2.2%. The increase in other expense was in large part due to increased loan collection expense and writedowns on other real estate.

In 2015 as compared to 2014, non-interest expense decreased by \$732,745, or 2.8%, to \$25,590,967. Included in this decrease was a reduction in other expense in the amount of \$963,138, or 12.0% partially offset by an increase in salaries and benefits in the amount of \$200,188, or 1.5% and an increase in occupancy expense in the amount of \$30,205, or 0.6%. The increase in occupancy expense is related to increased banking equipment service costs and the decrease in other expense was in large part due to decreased loan collection expense and writedowns on other real estate.

In 2017, the Company's efficiency ratio was 76.35%, compared to 71.49% in 2016 and 68.69% in 2015. The efficiency ratio is calculated to measure the cost of generating one dollar of revenue. The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income, on a fully tax equivalent basis, and non-interest income.

INCOME TAXES

The Company records a provision for income taxes currently payable, along with a provision for deferred taxes to be realized in the future. Such deferred taxes arise from differences in timing of certain items for financial statement reporting rather than income tax reporting. The deferred tax amount of \$5,362,750 is considered realizable without the use of extraordinary tax planning strategies.

The Company's effective tax rate was 52.36%, 19.31% and 24.62% in 2017, 2016 and 2015, 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 and the impact on deferred tax assets due to tax reform. 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 2017 as compared to 2016, the Company experienced a decrease in deposits and an increase in loans outstanding. The increase in investment securities is mainly the result of the desire to invest funds not needed for funding current loan obligations and the desire to move funds from short term low yielding interest bearing deposits with other banks. 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 will increase by offering competitive rates and superior service to the Bank's customers.

The Company increased its FHLB advances to \$30,000,000 at year end, all of which will mature during 2018. The Company will continue to use advances if they are needed to maintain the Company's liquidity position.

The deposit base is diversified between individual and commercial accounts, which the Company believes helps it avoid dependence on large concentrations of funds. The Company does not 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 AFS. All of the \$505,046,377 in the investment securities portfolio is classified in the AFS 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, 2017, both the ALCO and the Board of Directors determined that the Company's liquidity position was adequate.

Table 13 - Funding Uses and Sources details the main components of cash flows for 2017 and 2016.

TABLE 13 - FUNDING USES AND SOURCES
(in thousands)

	2017			2016		
	Average Balance	Increase/(decrease) Amount	Percent	Average Balance	Increase/(decrease) Amount	Percent
FUNDING USES						
Loans, net of unearned income	\$395,217	\$(14,150)	-3.46%	\$409,367	\$ (2,320)	-0.56%
Taxable securities	384,721	32,110	9.11%	352,611	17,074	5.09%
Tax-exempt securities	126,412	3,309	2.69%	123,103	37,506	43.82%
Federal funds sold and other	24,999	(11,072)	-30.70%	36,071	735	2.08%
TOTAL USES	\$931,349	\$ 10,197	1.11%	\$921,152	\$ 52,995	6.10%
FUNDING SOURCES						
Noninterest-bearing deposits	\$150,689	\$ 4,251	2.90%	\$146,438	\$ 4,116	2.89%
Interest-bearing demand and savings deposits	422,935	27,370	6.92%	395,565	29,962	8.20%
Time deposits	189,359	(12,902)	-6.38%	202,261	(14,227)	-6.57%
Short-term borrowings	2,312	2,265	4819.15%	47	(13)	-21.67%
Commercial repo	127,937	19,053	17.50%	108,884	1,956	1.83%
Long-term debt	20,029	(13)	-0.06%	20,042	(6)	-0.03%
TOTAL SOURCES	\$913,261	\$ 40,024	4.58%	\$873,237	\$ 21,788	2.56%

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

CAPITAL RESOURCES

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

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

During 2017 as compared to 2016, total capital increased even though total dividends were in excess of book earnings due to the issuance of stock in the form of restricted stock or option exercises in the amount of \$300,935 and the transfer of stranded AOCI in the amount of \$1,588,198 that resulted from the Tax Cut and Jobs Act of 2017.

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, 2017, as noted below in Table 14—Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

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

	2017	At December 31, 2016	2015
Tier 1 capital			
Shareholders' equity	\$ 88,452	\$ 85,060	\$ 86,425
Less: Intangibles	(3,150)	(3,150)	(3,150)
Add/less: Unrealized loss/(gain) on securities	8,225	10,719	7,117
TOTAL TIER 1 CAPITAL	<u>\$ 93,527</u>	<u>\$ 92,629</u>	<u>\$ 90,392</u>
Total capital			
Tier 1 capital	\$ 93,527	\$ 92,629	\$ 90,392
Allowable allowance for loan losses	3,019	3,903	6,474
TOTAL CAPITAL	<u>\$ 96,546</u>	<u>\$ 96,532</u>	<u>\$ 96,866</u>
RISK WEIGHTED ASSETS	<u>\$ 521,708</u>	<u>\$ 516,925</u>	<u>\$552,186</u>
AVERAGE ASSETS (FOURTH QUARTER)	<u>\$1,020,107</u>	<u>\$1,005,163</u>	<u>\$976,448</u>
TIER 1 LEVERAGE RATIO	<u>9.17%</u>	<u>9.22%</u>	<u>9.26%</u>
COMMON EQUITY TIER 1 CAPITAL RATIO	<u>9.17%</u>	<u>9.22%</u>	<u>9.26%</u>
TIER 1 RISK-BASED CAPITAL RATIO	<u>17.93%</u>	<u>17.92%</u>	<u>16.37%</u>
TOTAL RISK-BASED CAPITAL RATIO	<u>18.51%</u>	<u>18.67%</u>	<u>17.54%</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 the Bank's service area. Over the past three years, the Company has been able to increase the amount of its capital, through retention of earnings, while still maintaining the dividend payout ratio to approximately 85% 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 Concentrations of Risks,” in the notes to the Company’s Consolidated Financial Statements included in this Annual Report.

CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual obligations, excluding deposits, of the Company as of December 31, 2017.

Contractual Obligations	Total	Payments Due by Period (in thousands)			
		Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Long Term Debt	\$20,000	\$20,000	\$—	\$—	\$—
Operating Leases	1,184	292	459	433	—
Other Long-term Liabilities	25	—	4	21	—
Total	<u>\$21,209</u>	<u>\$20,292</u>	<u>\$463</u>	<u>\$454</u>	<u>\$—</u>

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

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

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

MARKET/INTEREST RATE RISK MANAGEMENT

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

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

In addition to the quarterly interest rate risk report, the Company employs a number of tools to measure interest rate risk. One tool is static gap analysis, which matches assets with specified maturities to liabilities with corresponding maturities. Although management believes that this does not provide a complete picture of the Company's exposure to interest rate risk, it does highlight significant short-term repricing volume mismatches. The following table presents the Company's rate sensitivity static gap analysis at December 31, 2017 (\$ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	\$ 164,315	\$ 67,024
Total rate sensitive liabilities	319,020	95,981
Net gap	<u>\$(154,705)</u>	<u>\$(28,957)</u>

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

Management believes that static gap analysis does not fully capture the impact of interest rate movements on interest sensitive assets and liabilities. Thus, the Company also measures interest rate risk by analyzing interest rate sensitivity and the rate sensitivity gap. Table 15—Interest Rate Sensitivity provides additional information about the financial instruments that are sensitive to changes in interest rates. This tabular disclosure is limited by its failure to depict accurately the effect on assumptions of significant changes in the economy or interest rates or changes in management's expectations or intentions relating to the Company's financial statements. The information in the interest rate sensitivity table below reflects contractual interest rate pricing dates and contractual maturity dates. For indeterminate maturity deposit

products (money market, NOW and savings accounts), the tables present principal cash flows in the shortest term. Although these deposits may not reprice within this time frame, the depositors of such funds have the ability to reprice. Weighted average floating rates are based on the rate for that product as of December 31, 2017 and December 31, 2016.

TABLE 15 - INTEREST RATE SENSITIVITY AS OF DECEMBER 31, 2017
(in thousands)

	2018	2019	2020	2021	2022	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$ 82,965	\$72,897	\$58,986	\$72,193	\$ 39,682	\$ 26,954	\$353,677	\$352,992
Average Int Rate	4.64%	4.89%	4.59%	4.40%	4.64%	3.23%	4.53%	
Floating Rate	\$ 3,086	\$ 4,345	\$ 8,896	\$10,022	\$ 815	\$ 21,550	\$ 48,714	\$ 48,714
Average Int Rate	4.31%	4.11%	4.75%	3.18%	5.26%	5.38%	4.63%	
Investment securities								
Fixed Rate	\$ 2,414	\$ 1,877	\$ 8,107	\$26,894	\$107,667	\$366,182	\$513,141	\$502,181
Average Int Rate	4.98%	5.05%	2.96%	1.96%	2.09%	2.61%	2.50%	
Floating Rate						\$ 2,865	\$ 2,865	\$ 3,074
Average Int Rate						2.78%	2.78%	
Other earning assets								
Fixed Rate	\$ 1,532						\$ 1,532	\$ 1,532
Average Int Rate	0.50%						0.50%	
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$524,167	\$32,649	\$ 2,979	\$ 19	\$ 1,580	\$ 0	\$561,394	\$561,530
Average Int Rate	0.27%	0.62%	0.59%	0.55%	0.55%	0.00%	0.29%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate	\$ 30,000						\$ 30,000	\$ 30,006
Average Int Rate	2.22%						2.22%	
Floating Rate	\$142,498						\$142,498	\$142,498
Average Int Rate	0.99%						0.99%	

AS OF DECEMBER 31, 2016
(in thousands)

	2017	2018	2019	2020	2021	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$ 76,690	\$38,268	\$74,886	\$70,308	\$75,947	\$ 20,546	\$356,645	\$353,099
Average Int Rate	4.64%	5.37%	4.82%	4.58%	4.42%	3.37%	4.62%	
Floating Rate	\$ 3,508	\$ 2,000	\$ 4,749	\$ 1,200	\$11,213	\$ 15,337	\$ 38,007	\$ 38,007
Average Int Rate	3.76%	4.28%	3.39%	4.94%	2.49%	4.90%	3.86%	
Investment securities								
Fixed Rate	\$ 2,422	\$ 2,602	\$ 2,554	\$12,762	\$66,778	\$423,232	\$510,350	\$493,154
Average Int Rate	2.66%	3.04%	3.61%	2.74%	1.90%	2.25%	2.23%	
Floating Rate						\$ 2,971	\$ 2,971	\$ 2,971
Average Int Rate						2.08%	2.08%	
Other earning assets								
Fixed Rate	\$ 48,603						\$ 48,603	\$ 48,603
Average Int Rate	0.50%						0.50%	
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$572,657	\$35,638	\$ 2,263	\$ 56	\$ 25	\$ 0	\$610,639	\$610,785
Average Int Rate	0.27%	0.62%	0.59%	0.55%	0.55%	0.00%	0.29%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate		\$20,000					\$ 20,000	\$ 20,284
Average Int Rate		2.53%					2.53%	
Floating Rate	\$150,283						\$150,283	\$150,283
Average Int Rate	0.68%						0.68%	

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, 2017. 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, 2017
(in thousands, except percentage amounts)

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
INTEREST EARNING ASSETS					
Loans	\$ 68,185	\$ 57,875	\$243,373	\$ 24,517	\$393,950
Investment securities	94,598	9,149	94,288	307,012	505,047
Interest Bearing Due From Bank Accounts	1,532	—	—	—	1,532
TOTAL INTEREST BEARING ASSETS	\$ 164,315	\$ 67,024	\$337,661	\$331,529	\$900,529
INTEREST BEARING LIABILITIES					
Interest bearing demand deposits	\$ 69,942	\$ —	\$ 93,255	\$ 25,948	\$189,145
Savings and Money Market deposits	31,787	—	53,091	135,757	220,635
Time deposits	44,793	95,981	36,789	—	177,563
Short term borrowings	152,498	—	—	—	152,498
Long term borrowings	20,000	—	25	—	20,025
TOTAL INTEREST BEARING LIABILITIES	\$ 319,020	\$ 95,981	\$183,160	\$161,705	\$759,866
Rate sensitive gap	\$(154,705)	\$ (28,957)	\$154,501	\$169,824	\$140,663
Rate sensitive cumulative gap	(154,705)	(183,662)	(29,161)	140,663	—
Cumulative gap as a percentage of total earning assets	-17.18%	-20.39%	-3.24%	15.62%	

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

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

The rate sensitivity gap table illustrates that the Company had a large negative cumulative gap position for the 1 to 90-day period as of December 31, 2017. This negative gap position was mainly due to: (1) a largest amount of investment securities that have call dates within that period; (2) the commercial repurchase accounts being classified in the 1 to 90 day category; (3) approximately 79.3% of certificates of deposit maturing during the next twelve months; and (4) 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 the Company's earnings. The Company has attempted to mitigate the impact of its interest rate position by increasing the amount of its variable rate loans and also by structuring deposit rates to entice customers to 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.

Short term interest rates have remained low in 2015, 2016 and most of 2017 in connection with the target Federal Funds rate by the Federal Reserve Bank. In December 2015, the Federal Reserve Bank increased its target Federal Funds rate to 50 basis points and again in December 2016 to 75 basis points. After the rate increase in 2015, medium term rates began to decline but rose again after the presidential election in November 2016. Since the inauguration, rates have begun to rise due to inflation fears caused by an economy that has begun to show signs of growth. Overall, the effect on the Company has been marginal. The Company's net interest margin in 2017 was 3.01% and in 2016 was 3.07%.

Quarterly Financial Trends

(in thousands, except per share amounts)

	2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$ 7,469	\$ 7,842	\$ 7,544	\$ 7,673
Interest Expense	807	830	825	881
Net Interest Income	6,662	7,012	6,719	6,792
Provision for Loan Losses	(151)	(30)	(74)	(288)
Non-interest Income	1,934	2,123	2,127	2,090
Non-interest Expense	7,109	6,911	6,887	7,321
Income Taxes	201	471	425	2,974
Net Income	\$ 1,437	\$ 1,783	\$ 1,608	\$ (1,125)
Per common share:				
Basic	\$ 0.29	\$ 0.37	\$ 0.33	\$ (0.23)
Diluted	\$ 0.29	\$ 0.36	\$ 0.33	\$ (0.23)
Cash Dividends	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24

	2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$ 7,580	\$ 7,625	\$ 7,574	\$ 7,390
Interest Expense	769	755	754	820
Net Interest Income	6,811	6,870	6,820	6,570
Provision for Loan Losses	61	(147)	184	(163)
Non-interest Income	1,815	1,908	2,080	1,889
Non-interest Expense	6,644	6,655	6,558	6,622
Income Taxes	395	491	406	320
Net Income	\$ 1,526	\$ 1,779	\$ 1,752	\$ 1,680
Per common share:				
Basic	\$ 0.31	\$ 0.36	\$ 0.36	\$ 0.34
Diluted	\$ 0.31	\$ 0.36	\$ 0.36	\$ 0.34
Cash Dividends	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24

Market Price and Dividend Information

MARKET PRICE INFORMATION

The Company's common stock trades on the NASDAQ Global Market ("NASDAQ") under the symbol "CIZN". On March 2, 2018, the common stock's closing price on NASDAQ was \$21.95. The following table sets forth the high and low sales prices for the common stock as reported on NASDAQ, as well as the dividends declared, in each quarter in the past two fiscal years.

<u>2016</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$25.42	\$20.76	0.24
April - June	22.85	21.04	0.24
July - September	25.35	21.21	0.24
October - December	25.85	22.70	0.24

<u>2017</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$26.61	\$22.75	0.24
April - June	26.00	23.00	0.24
July - September	26.00	23.20	0.24
October - December	25.50	22.65	0.24

On March 2, 2018, shares of the Company's common stock were held of record by approximately 412 shareholders.

DIVIDENDS

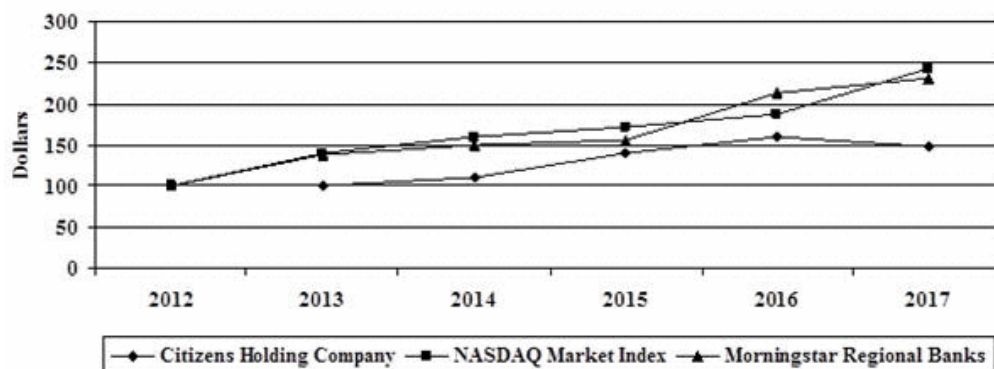
Dividends totaled \$0.96 per share for 2017 and 2016.

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

STOCK PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's common stock to the NASDAQ Composite Index and the Morningstar Regional Bank index (a peer group of other regional bank holding companies) for the Company's reporting period. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 at December 31, 2012 and that all dividends were reinvested.

Performance Graph
December 31, 2012 - December 31, 2017



	2012	2013	2014	2015	2016	2017
Citizens Holding Company	100.00	100.26	109.79	140.56	159.63	148.54
NASDAQ Market Index	100.00	140.12	160.78	171.97	187.22	242.71
Morningstar Regional Banks	100.00	138.74	149.60	156.82	212.44	231.79

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

THE CITIZENS BANK OFFICERS

Greg McKee
President and CEO

Robert T. Smith
Senior Vice President, CFO

Mark Taylor
Senior Vice President, COO, Trust Officer

Ray Stone
Senior Vice President, Chief Credit Officer

Erdis Chaney
Vice President, Senior Deposit Officer

Ledale Reynolds
Vice President and CIO

Jackie Hester
Vice President, Marketing Officer

Darrel Bates
Vice President, Collections Manager

Jean T. Fulton
Vice President, Internal Auditor

Gayle Sharp
Vice President, Loan Operations Manager

Brad Copeland
Vice President, Branch Manager

Mark Majure
Vice President, Loan Review Officer

Vicki Brown
Vice President, BSA Officer

Bob Posey
Vice President

Mike Chandler
Vice President

Stacy Arnold
Vice President, Compliance Officer

Joshua Sullivan
Vice President, Senior Credit Analyst

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

Walter Dyminski
Vice President, Regional Commercial Lender

Ashley Peebles
Vice President, Director of Deposit Services

Sommer Vick
Assistant Vice President, Assistant Trust Officer

Beth Branning
Assistant Vice President

Mitch Peden
Assistant Vice President, Information Services Manager

Mark Flake
Assistant Vice President, Network Services Manager

Pat Stokes
Assistant Vice President, Operations Officer

Scott Lewis
Assistant Vice President, Information Security Officer

Sam Mars
Assistant Vice President, Loan Officer

Shon Kirkland
Assistant Vice President, Security Officer/
Facilities Manager

Charles Wilkerson
Assistant Vice President, Loan Operations Officer

Tammy Pope
Accounting Officer

Greg Jackson
Accounting Officer

Deborah Ladd
Item Processing Officer

Sandra Curtis
Assistant Cashier, Teller Administrator

Temika Triplett
Assistant Cashier, Electronic Services Officer

Craig Stevens
Deposit Operations Officer

Carthage Branch

Mike Brooks
President

Billy Cook
Vice President

Sue Fisher
Assistant Vice President, Deposit Operations Officer

Sebastopol Branch

Connie Comans
President

Union and Decatur Branches

Susan Brown
Deposit Operations Officer

Kosciusko Branch

Teresa Patterson
Vice President, Branch Manager
David Blair, Mortgage Loan Officer
Vice President

Scooba and DeKalb Branches

Reggie Moore
Assistant Vice President, Branch Manager

Jan White
Branch Operations Officer

Forest Branch

Richard Latham
Vice President
Lawanda McCaughn
Deposit Operation Officer

Louisville Branch

Bruce Lee
President
Lynn Graham
Assistant Vice President, Branch Operations Officer

Starkville Branch

Charles Byrd
Vice President, Appraisal Review Officer
Rhonda Edmonson
Assistant Vice President, Branch Operations Manager

Collinsville Branch

Mike Shelby
Vice President, Branch Manager

Meridian Eastgate and Broadmoor Branches

Jay Hines
Vice President, Loan Officer

Vikki Gunter
Assistant Vice President, Branch Operations Officer

Annette Brooks
Assistant Cashier, Branch Operations Officer

Hattiesburg Branch

Chad Hill
Vice President, Branch Manager

Tammy McAlpin
Commercial Loan Portfolio Manager

Flowood Branch

David Peters
Vice President, Mortgage Loan Officer

Biloxi Cedar Lake and Lemoyne Branches

Travis Moore
Regional President

Brandon Sherwood
Gulf Coast President

Tammy Warren
Assistant Vice President, Mortgage Loan Officer

Katie Hancock
Assistant Vice President, Branch Manager

Mortgage Loan Department

Charlene Deweese
Assistant Vice President, Mortgage Loan Officer

Oxford Loan Production Office

Marion Boyd
Vice President, Regional Commercial Lender

BOARD OF DIRECTORS

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

Donald L. Kilgore
Special Assistant Attorney General
State of Mississippi

David A. King
Proprietor
Philadelphia Motor Company

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

Adam Mars
Business Manager
Mars, Mars & Mars

Craig Dungan, MD
Physician
Meridian Gastroenterology PLLC

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

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

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

Terrell E. Winstead
Chief Financial Officer
Molpus Woodlands Group

CITIZENS HOLDING COMPANY OFFICERS

Herbert A. King
Chairman

Greg L. McKee
President and Chief Executive Officer

Mark Taylor
Secretary

Robert T. Smith
Treasurer and Chief Financial Officer

BANKING LOCATIONS**Philadelphia Main Office**

521 Main Street
Philadelphia, MS 39350
601.656.4692

Westside Branch

912 West Beacon Street
Philadelphia, MS 39350
601.656.4692

Northside Branch

802 Pecan Avenue
Philadelphia, MS 39350
601.656.4692

Eastside Branch

599 East Main Street
Philadelphia, MS 39350
601.656.4692

Union Branch

502 Bank Street
Union, MS 39365
601.774.9231

Starkville Branch

201 Highway 12 West
Starkville, MS 39759
662.323.1420

Carthage Main Office

301 West Main Street
Carthage, MS 39051
601.257.4525

Biloxi Cedar Lakes

1830 Popps Ferry Road
Biloxi, MS 39532
228.594.6913

Oxford Loan Production

304 Enterprise Dr., Ste A
Oxford, MS 38655

Collinsville Branch

9065 Collinsville Road
Collinsville, MS 39325
601.626.7608

Flowood Branch

5419 Hwy 25 Ste. Q
Flowood, MS 39232
601.992.7688

Sebastopol Branch

24 Pine Street
Sebastopol, MS 39359
601.625.7447

DeKalb Branch

176 Main Avenue
DeKalb, MS 39328
601.743.2115

Kosciusko Branch

775 North Jackson Street
Kosciusko, MS 39090
662.289.4356

Scooba Branch

27597 Highway 16 East
Scooba, MS 39358
662.476.8431

Meridian Eastgate

1825 Hwy 39 North
Meridian, MS 39301
601.693.8367

Hattiesburg Branch

6222 Highway 98
Hattiesburg, MS 39402
601.264.4425

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-Main Branch

100 East Main Street
Louisville, MS 39339
662.773.6261

Noxapater Branch

45 East Main Street
Noxapater, MS 39346
662.724.4261

Louisville-Industrial Branch

803 South Church Street
Louisville, MS 39339
662.773.6261

Biloxi Lemoyne Boulevard

15309 Lemoyne Boulevard
Biloxi, MS 39532
228.207.2343

Meridian Broadmoor

5015 Highway 493
Meridian, MS 39305
601.581.1541

Flowood Branch

5419 Highway 25, Suite Q
Flowood, MS 39232
601.992.7688

Internet Banking

<http://www.thecitizensbankphila.com>

FINANCIAL INFORMATION**CORPORATE HEADQUARTERS**

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

601.656.4692

ANNUAL SHAREHOLDER MEETING

The Annual Shareholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 24, 2018, at 4:30 P.M. in the lobby of the main office of The Citizens Bank, 521 Main Street, Philadelphia, Mississippi.

STOCK REGISTRAR AND TRANSFER AGENT

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

FORM 10-K

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

FINANCIAL CONTACT

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

Additional information can be obtained from the Company's website at www.citizensholdingcompany.com.

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%

[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, 2017 and in the Registration Statements on Form S-8 (Nos. 333-89680 and 333-190500) of Citizens Holding Company of our reports dated March 8, 2018 related to our audits of the consolidated financial statements and internal control over financial reporting which appear in the 2017 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, 2017.

/s/ HORNE LLP
Ridgeland, Mississippi
March 15, 2018

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Greg McKee, certify that:

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

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

Date: March 15, 2018

by: /s/ Greg McKee
Greg 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 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 15, 2018

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the “Company”) for the period ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Greg McKee, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

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

Date: March 15, 2018

by: /s/ Greg McKee

Greg McKee
Chief Executive Officer

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the “Company”) for the period ended December 31, 2017 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 15, 2018

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer

