



FORM 10-K

CITIZENS HOLDING CO /MS/ – CIZ

Filed: March 28, 2002 (period: December 31, 2001)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

or

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

Commission file number: 000-25221
CITIZENS HOLDING COMPANY
(exact name of Registrant as specified in its charter)

MISSISSIPPI 64-0666512
(State or other jurisdiction of (I.R.S. Employer Identification Number)
incorporation or organization)

521 Main Street, Philadelphia, MS 39350
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 601-656-4692
Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class ----- | Name of Each Exchange on Which Registered ----- |
|-------------------------------|---|
| Common Stock, \$.20 par value | American Stock Exchange |

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

None

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. YES (X) 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 the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

| Class | Outstanding at March 8, 2002 |
|-------------------------------|------------------------------|
| Common stock, \$.20 par value | 4,963,125 Shares |

The aggregate market value of the voting stock held by non-affiliates of the Registrant on March 11, 2002 was \$63,420,011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference to Part II and III of the Form 10-K: 2001 Annual Report to Shareholders (Part II) and the Definitive Proxy Statement dated March 22, 2002 for Registrant's Annual Meeting of Stockholders to be held April 23, 2002 (Part III).

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PART I

In addition to historical information, this report contains statements which constitute forward-looking statements and information which are based on management's beliefs, plans, expectations, assumptions and on information currently available to management. The words "may," "should," "expect," "anticipate," "intend," "plan," "continue," "believe," "seek," "estimate," and similar expressions used in this report that do not relate to historical facts are intended to identify forward-looking statements. These statements appear in a number of places in this report, including, but not limited to, statements found in Item 1 "Business" and in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Corporation notes that a variety of factors could cause the actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the Corporation's and the Bank's business include, but are not limited to, the following: (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Corporation operates; (b) changes in the legislative and regulatory environment that negatively impact the Corporation and Bank through increased operating expenses; (c) increased competition from other financial institutions; (d) the impact of technological advances; (e) expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions; (f) changes in asset quality and loan demand; (g) expectations about overall economic strength and the performance of the economy in the Corporation's market area; and (h) other risks detailed from time to time in the Corporation's filings with the Securities and Exchange Commission. The Corporation does not undertake any obligation to update or revise any forward-looking statements subsequent to the date on which they are made.

ITEM 1. BUSINESS

BACKGROUND

Citizens Holding Company (the "Corporation") is a one-bank holding company that holds 97.44% of the outstanding shares of The Citizens Bank of Philadelphia, Mississippi (the "Bank"). The Corporation was incorporated under Mississippi law on February 16, 1982, at the direction of the Board of Directors of the Bank in order to facilitate the Bank's adoption of a one-bank holding company structure.

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, 2001, the Bank was the largest bank headquartered in Neshoba County with total assets of \$426,684,787 and total deposits of \$360,065,165.

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

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

The Corporation has signed an Agreement and Plan of Share Exchange to purchase CB&T Capital Corporation and Citizens Bank & Trust Company in Louisville, Mississippi in the second quarter of 2002. This acquisition will add approximately \$70 million in assets to the Corporation.

OPERATIONS

The Corporation, through the Bank, 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; and 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 Corporation's lending activities constitute the largest component of the Corporation's operating revenues. Such lending activities include commercial, real estate, installment (direct and indirect) and credit card loans. The Corporation's primary lending area is East Central Mississippi, specifically Neshoba, Newton, Leake, Scott, Attala, Lauderdale and Kemper counties and contiguous counties. The Corporation extends out-of-area credit only to borrowers who are considered to be low risk, and only on a very limited basis.

This seven county lending area is mainly rural with Meridian, at 41,036 in population, being the largest city. Agriculture and some light industry are a big part of the economy of this area. The largest employer in the Corporation's service area is the Mississippi Band of Choctaw Indians with their schools, manufacturing plants and their main source of income, The Silverstar Casino and Resort (the "Casino"). The Casino and its related services employs approximately 2,500 people from the Corporation's service area.

The Corporation has in the past and intends to continue to make most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction and commercial real estate loans. Historically, approximately 62.6% of

the Corporation's loan portfolio has been attributed to this category of lending. Another 16.6% of the Corporation's loan portfolio has been comprised of commercial, industrial and agricultural production loans, with consumer loans making up the remaining 20.8% of the total loan portfolio.

The Corporation'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 loan committee for approval. The loan committee is composed of various Bank directors, including the Chairman. All aggregate credits that exceed the loan committee's lending authority are presented to the full Board of Directors for ultimate approval or denial. The loan committee not only acts as an approval body to ensure consistent application of the Corporation's loan policy, but also provides valuable insight through the communication and pooling of knowledge, judgment and experience of its members.

Of course, all loans in the Corporation's portfolio are subject to risk based on the economy in the Corporation's area and also that of the nation. However, because the Corporation's local economy has been strong and unemployment has remained at historic lows, management continues to believe that general risk levels are low.

In addition to lending services, the Corporation provides a wide range of personal and corporate trusts and trust-related services, which include its serving as executor of estates, as trustee under testamentary and inter vivos trusts and various pension and other employee benefit plans, as the guardian of the estates of minors and incompetents, and as escrow agent under various agreements.

The Corporation offers discount brokerage services through First Tennessee Bank.

In 1996, the Corporation opened the Westside building in Philadelphia, Mississippi, replacing a smaller drive-up only facility. In early 1998, the Corporation opened a new full service facility in Kosciusko, Mississippi.

The Corporation also expanded its ability to offer its customers broader options with their mortgage loan needs in 1999 with the acquisition of the assets of Three D Mortgage Company, with locations in Philadelphia and Kosciusko, Mississippi. The Corporation's Mortgage Department originates mortgage loans that are sold to the secondary market.

Through such innovations as its VISA Checkcard program, the 24 Hour Phone Teller and its Internet site (<http://www.thecitizensbankphila.com>), the

Corporation's customers have the ability to have easy and convenient access to their funds and account balances 24 hours a day, 7 days a week. Additionally, the Internet site enables the Corporation's customers to review their accounts in detail, make transfers between their accounts and pay bills from anywhere in the world.

EXECUTIVE OFFICERS OF THE REGISTRANT

From 1978 until the present, Steve Webb, who is 69 years old, has served as President and Chief Executive Officer of the Corporation. Mr. Webb has served as Chief Executive Officer of the Bank since 1997 and served as President of the Bank from 1978 until January 2002. Mr. Webb has served as a member of the Board of Directors of the Corporation since 1982 and of the Bank since 1970. Mr. Webb has served as Chairman of the Board of both the Bank and Corporation since 1997.

Greg L. McKee, who is 40 years old, has been President and Chief Operating Officer of the Bank since January 2002 and a member of the Boards of both the Corporation and the Bank since 2001. Previous to this, he 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 from 1989 to 1992, and Assistant Cashier from 1984 to 1989.

Robert T. Smith, who is 50 years old, has been employed by the Bank since 1986 and has been in his current position of Senior Vice-President and Chief Financial Officer since January 2001. Prior to January 2001, Mr. Smith held the title of Vice-President and Controller from 1987 until 2001 and Assistant Vice-President from 1986 to 1987. In addition to his position with the Bank, Mr. Smith was elected to serve as Treasurer of the Corporation in February 1996.

EMPLOYEES

The Corporation has no compensated employees. At December 31, 2001, the Bank employed 168 full-time employees and 26 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 Department of Banking and Consumer Finance and the FDIC. The Corporation is a registered bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), and is subject to the supervision of the Federal Reserve Board ("FRB"). Certain legislation and regulations affecting the businesses of the Corporation and the Bank are discussed below.

General.

The FRB requires the Corporation to maintain certain levels of capital. The FRB also has the authority to take enforcement action against any bank holding company that engages in any unsafe or unsound practice or that violates certain laws, regulations, or conditions imposed in

writing by the FRB.

Capital Standards.

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

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

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

Prompt Corrective Action and Other Enforcement Mechanisms.

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

Safety and Soundness Standards.

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

Restrictions on Dividends and Other Distributions.

The 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 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 Corporation's ability to pay dividends depends in large part on the ability of the Bank to pay dividends to the Corporation. Certain provisions of state law restrict the payment of dividends by a Mississippi state bank. In addition, the Bank must obtain the prior approval of the Mississippi Department of Banking and Consumer Finance for the payment of any dividend.

FDIC Insurance Assessments.

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

Interstate Banking and Branching.

On September 29, 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") was signed into law. The Interstate Act effectively permits nationwide banking.

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

Community Reinvestment Act.

The revised Community Reinvestment Act ("CRA") regulations emphasize an assessment of actual performance rather than of the procedures followed by a bank, to evaluate compliance with the CRA. Overall CRA compliance continues to be rated across a four-point scale from "outstanding" to "substantial noncompliance," and continues to be a factor in review of applications to merge, to establish new branches or for the formation of bank holding companies. Different evaluation methods are used depending on the asset size of the bank.

The FDIC examined the Bank on June 1, 1999 and again most recently on August 21, 2001, for its performance under the CRA. The Bank was rated Satisfactory during both of these examinations. No discriminatory practices or illegal discouragement of applications were found.

Impact of Monetary Policies.

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

COMPETITION

The banking business is a highly competitive business. The Corporation's market area consists principally of Neshoba, Newton, Leake, Scott, Attala, Lauderdale and Kemper Counties in Mississippi, although the Corporation also competes with other financial institutions in those counties and in surrounding counties in Mississippi in obtaining deposits and providing many types of financial services. The Corporation competes with larger regional banks for the business of companies located in the Corporation's market area. A healthy economy, such as the Corporation's market area is experiencing, invites certain challenges, especially that of competition.

All financial institutions today are faced with the challenge of competing for customers' deposits, and the Corporation is no exception. The Corporation competes with savings and loan associations, credit unions, production credit associations, federal land banks, finance companies, personal loan companies, money market funds and other non-depository financial intermediaries. Many of these financial institutions have resources many times greater than those of the Corporation. 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.

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

Currently, there are approximately fourteen different financial institutions in the Corporation's market area competing for the same customer base. Despite these challenges, the Corporation has not only been able to maintain its market share, but has actually increased its share in recent years.

ITEM 2. PROPERTIES

The Corporation, through the Bank, currently operates from its main office in downtown Philadelphia, and from 15 additional branches in Neshoba, Newton, Leake, Scott, Attala, Lauderdale and Kemper counties, all located in Mississippi. Information about these branches is set forth in the table below:

| Name of Office | Location/ Telephone Number | Banking Functions Offered |
|----------------------|--|---------------------------------|
| Main Office | 521 Main Street Philadelphia, Mississippi (601) 656-4692 | Full Service Trust |
| Eastside Branch | 585 East Main Street Philadelphia, Mississippi (601) 656-4976 | Drive-up |
| Westside Branch | 912 West Beacon Street Philadelphia, Mississippi (601) 656-4978 | Full Service 24 Hour Teller |
| Northside Branch | 720 Pecan Avenue Philadelphia, Mississippi (601) 656-4977 | Deposits 24 Hour Teller |
| Pearl River Branch | 110 Choctaw Town Center Philadelphia, Mississippi (601) 656-4971 | Full Service 24 Hour Teller |
| Union Branch | Corner of Horne & Bank Union, Mississippi (601) 774-9231 | Full Service |
| Carthage Main Office | 219 West Main Street Carthage, Mississippi (601) 267-4525 | Full Service |

| | | |
|-------------------|--|--------------------------------|
| Crossroads Branch | Highways 35 & 16 Carthage, Mississippi (601) 267-4525 | Drive-up |
| Madden Branch | Highway 488 Madden, Mississippi (601) 267-7366 | Deposits |
| Sebastopol Branch | Main Street Sebastopol, Mississippi (601) 625-7447 | Loans Deposits |
| DeKalb Branch | Corner of Main & Bell DeKalb, Mississippi (601) 743-2115 | Full Service |
| Kosciusko Branch | 775 North Jackson Avenue Kosciusko, Mississippi (601) 289-4356 | Full Service 24-hour Teller |
| Scooba Branch | 1048 Johnston Street Scooba, Mississippi (601) 476-8431 | Full Service |
| Meridian Branch | 2209 E Hwy 45 North Meridian, Mississippi (601) 693-8367 | Loans Deposits |
| Decatur Branch | 15520 Highway 15 South Decatur, Mississippi (601) 635-2321 | Full Service |
| Forest Branch | 247 Woodland Drive North Forest, Mississippi (601) 469-3424 | Full Service |

The Bank owns its main office and its branch offices, except for the Pearl River Branch Office and the Meridian Branch Office, which are leased. The main office facility, originally occupied in 1966, is used solely by the Corporation and the Bank. This facility contains approximately 20,000 square feet and houses the executive offices and all operations related departments of the Corporation. The other branches range in size from nearly 4,000 square feet to 1,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

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

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

There were no matters submitted to the Company's shareholders during the fourth quarter of 2001.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Price.

The Corporation's Common Stock is traded on the American Stock Exchange ("AMEX") under the symbol "CIZ." The stock began trading on the AMEX on October 19, 1999 and prior to that date was sold by private transactions between parties. On December 31, 2001, the Common Stock's closing price was \$16.60.

| 2000 | High | Low | Dividends Declared (per common share) |
|--------------------|---------|---------|--|
| January - March | \$13.67 | \$11.17 | \$0.067 |
| April - June | 11.17 | 10.13 | 0.067 |
| July - September | 12.00 | 10.75 | 0.067 |
| October - December | 11.59 | 10.92 | 0.083 |

| 2001 | High | Low | Dividends Declared (per common share) |
|--------------------|---------|---------|--|
| January - March | \$11.17 | \$10.33 | \$0.083 |
| April - June | 11.83 | 10.77 | 0.100 |
| July - September | 13.17 | 11.50 | 0.100 |
| October - December | 16.60 | 12.17 | 0.100 |

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

On March 11, 2002, the shares of Common Stock were held of record by approximately 458 shareholders.

Dividends

Dividends, retroactively adjusted to give effect to the three-for-two stock split, totaled \$0.383 per share for 2001 compared to \$0.284 in 2000 and \$.213 in 1999. These dividends reflect a 35% increase in 2001 over 2000 and a 33% increase in 2000 over 1999.

The Corporation 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 Corporation of cash dividends are obtained from dividends received by the Corporation from the Bank. Accordingly, the declaration and payment of dividends by the Corporation depend upon the Bank's earnings and financial condition, general economic conditions, compliance with regulatory requirements, and other factors.

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR SUMMARY OF CONSOLIDATED STATEMENTS AND RELATED STATISTICS
(amounts in Thousands, Except Percent and Per Share Data)
(Per Share Data adjusted for 3:2 split of January 2, 2002)

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|-----------|-----------|-----------|-----------|-----------|
| Summary of Earnings | | | | | |
| Total Interest Income | \$ 29,119 | \$ 28,638 | \$ 25,476 | \$ 23,956 | \$ 21,588 |
| Total Interest Expense | 13,399 | 14,064 | 10,974 | 10,860 | 9,659 |
| Provision for loan losses | 1,123 | 918 | 849 | 846 | 740 |
| Non-interest income | 3,980 | 3,285 | 3,122 | 2,897 | 2,990 |
| Non-interest expense | 10,308 | 8,772 | 8,361 | 7,948 | 7,046 |
| Income tax expense | 2,558 | 2,635 | 2,793 | 2,487 | 2,561 |
| Net Income | 5,711 | 5,534 | 5,621 | 4,712 | 4,490 |
| Per Share Data | | | | | |
| Earnings-basic | \$ 1.15 | \$ 1.12 | \$ 1.13 | \$ 0.95 | \$ 0.91 |
| Earnings-diluted | \$ 1.15 | \$ 1.11 | \$ 1.13 | \$ 0.95 | \$ 0.91 |
| Cash dividends | \$ 0.383 | \$ 0.283 | \$ 0.213 | \$ 0.160 | \$ 0.113 |
| Book value at year end | \$ 9.51 | \$ 8.74 | \$ 7.57 | \$ 7.15 | \$ 6.29 |
| Selected Year End Actual Balances | | | | | |
| Loans, net of unearned income | \$264,278 | \$252,022 | \$234,349 | \$211,349 | \$194,304 |

| | | | | | |
|------------------------------------|---------|---------|---------|---------|---------|
| Allowance for possible loan losses | (3,375) | (3,325) | (3,100) | (2,900) | (2,700) |
| Investment securities | 122,567 | 103,533 | 102,451 | 91,539 | 67,292 |
| Total assets | 427,213 | 382,800 | 362,790 | 334,232 | 286,634 |
| Deposits | 359,309 | 289,908 | 284,462 | 282,242 | 248,984 |
| Long term borrowings | 14,629 | 10,000 | 10,000 | 10,000 | - |
| Shareholders' equity | 47,182 | 43,377 | 37,546 | 35,455 | 31,220 |

Selected Year End Average Balances

| | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Loans, net of unearned income | \$255,185 | \$244,307 | \$221,165 | \$202,228 | \$186,843 |
| Allowance for possible loan losses | (3,335) | (3,198) | (2,974) | (2,701) | (2,523) |
| Investment securities | 106,632 | 102,325 | 97,219 | 79,401 | 70,023 |
| Total assets | 403,881 | 374,439 | 347,613 | 314,896 | 279,961 |
| Deposits | 327,536 | 290,704 | 288,176 | 268,514 | 242,459 |
| Long term borrowings | 14,815 | 10,000 | 10,000 | 7,630 | 3 |
| Shareholders' equity | 47,664 | 40,701 | 37,603 | 33,513 | 28,920 |

Selected Ratios

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Return on average assets | 1.41% | 1.48% | 1.62% | 1.50% | 1.60% |
| Return on average equity | 11.98% | 13.60% | 14.95% | 14.08% | 15.24% |
| Dividend payout ratio | 33.31% | 25.41% | 18.84% | 16.85% | 12.52% |
| Equity to year end assets | 11.04% | 11.33% | 10.35% | 10.61% | 10.89% |
| Total risk-based capital to risk-adjusted assets | 18.40% | 18.88% | 18.52% | 18.13% | 17.02% |
| Leverage capital ratio | 10.51% | 11.61% | 11.06% | 10.61% | 10.46% |
| Efficiency ratio | 51.32% | 47.20% | 45.48% | 48.01% | 45.56% |

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

Information on the Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2001, 2000, and 1999, required by this Item 7 can be found under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2001, 2000 and 1999" and "Consolidated Financial Statements" in the 2001 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 on the Quantitative and Qualitative Disclosures about Market Risk, required by this Item 7A can be found under the headings "Quantitative and Qualitative Disclosures about Market Risk" in the 2001 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information on Financial Statements and Supplementary Data required by this Item 8 can be found under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2001, 2000 and 1999", "Consolidated Financial Statements" and "Quarterly Financial Trends" in the 2001 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.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the Directors and Executive Officers of the Registrant required by this Item 10 can be found under the headings "Executive Officers of the Registrant" in Item I of this Form 10-K and "Section 16(a) Beneficial Ownership Reporting Compliance" and "Board of Directors" in the Corporation's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 22, 2002, relating to its 2002 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding the Executive Compensation paid by the Registrant required by this Item 11 can be found under the headings "Executive Compensation", "Compensation of the Board of Directors", "Stock Performance Graph" and "Compensation Committee Interlocks and Insider Participation" in the Corporation's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 22, 2002, relating to its 2002 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding Security Ownership of Certain Beneficial Owners and Management can be found under the headings "Security Ownership of Directors, Nominees and Executive Officers" and "Security Ownership of Certain Beneficial Owners" in the Corporation's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 22, 2002, relating to its 2002 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding Certain Relationships and Related Transactions can be found under the headings "Indebtedness of Related Parties" and "Interests of the Board of Directors" in the Corporation's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 22, 2002, relating to its 2002 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements

Consolidated Financial Statements and Supplementary Information for years ended December 31, 1999, 2000 and 2001, which include the following:

- (i) Independent Auditor's Report
- (ii) Consolidated Statements of Financial Condition
- (iii) Consolidated Statements of Income
- (iv) Consolidated Statements of Comprehensive Income
- (v) Consolidated Statements of Changes in Shareholders' Equity
- (vi) Consolidated Statements of Cash Flows
- (vii) Notes to Consolidated Financial Statements

(b) Reports on Form 8-K.

The following reports on form 8-K were filed by the Corporation during the last quarter of the period covered by this Form 10-K:

On October 29, 2001, the Corporation filed on Form 8-K under Item 7(a) and Item 9 a press release announcing a three-for-two stock split payable December 31, 2001 to the Corporation's shareholders of record December 14, 2001.

On October 30, 2001, the Corporation filed on Form 8-K under Item 7(a) and Item 9 a press release announcing the financial results of the Corporation for the quarter ended September 30, 2001.

(c) Exhibits required by Item 601 of Regulation S-K

- 3(i) Amended Articles of Incorporation of the Corporation *
- 3(ii) Amended and Restated Bylaws of the Corporation *
- 4 Rights Agreement between Citizens Holding Company and The Citizens Bank of Philadelphia, Mississippi *
- 10 Directors' Deferred Compensation Plan - Form of Agreement *
- 10(a) Citizens Holding Company 1999 Directors' Stock Compensation Plan *
- 10(b) Citizens Holding Company 1999 Employees' Long-Term Incentive Plan *
- 13 2001 Annual Report to Shareholders *
- 21 Subsidiaries of Registrant *

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

(d) Financial Statement Schedules.
None.

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.

By: /s/ Steve Webb

STEVE WEBB
CHAIRMAN, CHIEF EXECUTIVE
OFFICER, PRESIDENT AND DIRECTOR

By: /s/ Robert T. Smith

ROBERT T. SMITH
TREASURER

DATE: March 12, 2002

SIGNATURES

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

| SIGNATURES | CAPACITIES | DATE |
|--------------------------------|-----------------------|----------------|
| /s/ Steve Webb ----- | Chairman of the Board | March 12, 2002 |
| /s/ Donald L. Kilgore ----- | Director | March 12, 2002 |
| /s/ Herbert A. King ----- | Director | March 12, 2002 |
| /s/ Greg L. McKee ----- | Director | March 12, 2002 |
| /s/ M. G. Bond ----- | Director | March 12, 2002 |
| /s/ Don Fulton ----- | Director | March 12, 2002 |
| /s/ W. W. Dungan ----- | Director | March 12, 2002 |
| /s/ David A. King ----- | Director | March 12, 2002 |
| /s/ William M. Mars ----- | Director | March 12, 2002 |
| /s/ George R. Mars ----- | Director | March 12, 2002 |

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Traditions

CITIZENS HOLDING COMPANY 2001 ANNUAL REPORT

To our Stockholders

Dear Stockholder:

The year 2001 was a wild one as far as financial companies were concerned. We experienced unprecedented swings in interest rates that peaked in February 2001 and by the end of the year were the lowest we can remember. This year was also a sad and tragic year, as we all know. On September 11th, I was attending a meeting in the FDIC Building in Washington when the Pentagon was hit. I walked out to the street and saw smoke coming from the Pentagon and witnessed the pandemonium taking place. Little did I realize the impact this would have on the world and on Citizens Holding Company.

The year has also brought wide swings in the stock market and unbelievable losses of market values. I feel good that our company again was more profitable in 2001 than any year in its existence. Our stock price has also advanced and seems to be holding well. We have increased cash dividends in the first quarter of 2002 to \$0.12 per share or \$0.48 per share when annualized. This is an increase of 25% over 2001. This represents a cash payment of about 40% of projected earnings. We feel that we can sustain this dividend and continue to have capital to support future growth.

On the subject of growth, we acquired branches in Decatur and Forest, Mississippi from Union Planters Bank during the year 2001 and added over \$30,000,000 in assets. We are in the process of acquiring Citizens Bank and Trust Company in Louisville and Noxapater, Mississippi, and when this is completed will add another \$70,000,000 in assets. All of these acquisitions are in close proximity to our home base and we think we know how to operate in these areas.

Additional investments in personnel have been made in the area of management infrastructure. Terry Woods, the former President of Inter-City Federal Bank in Louisville and Stanley Salter, former Branch Manager of the Philadelphia Operations of National Bank of Commerce, have joined us as Vice-Presidents of the Bank. These along with other highly professional officers will assure a continuity of management of your company.

We continue to upgrade our computer technology and are installing document imaging in the second quarter of this year. We will be moving the entire computer operations to a different building, which was purchased a few years ago with such a plan in mind.

It is fortunate that our operating area is experiencing growth due largely to the expansion of the casino and water park at the Pearl River Resort. We will also have a positive impact from the new Nissan Plant in Canton. The job market in this area is in for a big upward movement starting in the second half of 2002 and should really take off in 2003. We are in position to grow with this expansion in our economy.

We know that our primary job is to maximize stockholder value and we are convinced that a big part of this is through maximizing performance of The Citizens Bank.

On behalf of the Directors and Employees, we want you to know that we will continue to do our best and we thank the stockholders for allowing us to represent them through Citizens Holding Company.

"We know that our primary job is to maximize stockholder value and we are convinced that a big part of this is through maximizing performance of The Citizens Bank."

"I feel good that our company again was more profitable in 2001 than any year in its existence."

MARKET PRICE AND DIVIDEND INFORMATION

MARKET PRICE.

The Corporation's Common Stock is traded on the American Stock Exchange ("AMEX") under the symbol "CIZ." The stock began trading on the AMEX on October 19, 1999 and prior to that date was sold by private transactions between parties. On December 31, 2001, the Common Stock's closing price was \$16.60.

| 2000 | High | Low | Dividends Declared (per common share) |
|--------------------|-------|-------|--|
| January - March | 13.67 | 11.17 | 0.067 |
| April - June | 11.17 | 10.13 | 0.067 |
| July - September | 12.00 | 10.75 | 0.067 |
| October - December | 11.59 | 10.92 | 0.083 |

| 2001 | High | Low | Dividends Declared (per common share) |
|--------------------|-------|-------|--|
| January - March | 11.17 | 10.33 | 0.083 |
| April - June | 11.83 | 10.77 | 0.100 |
| July - September | 13.17 | 11.50 | 0.100 |
| October - December | 16.60 | 12.17 | 0.100 |

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

On March 11, 2002, the shares of Common Stock were held of record by approximately 458 shareholders.

DIVIDENDS

Dividends, retroactively adjusted to give effect to the three-for-two stock split, totaled \$0.383 per share for 2001 compared to \$0.284 in 2000 and \$.213 in 1999. These dividends reflect a 35% increase in 2001 over 2000 and a 33% increase in 2000 over 1999.

The Corporation 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 Corporation of cash dividends are obtained from dividends received by the Corporation from the Bank. Accordingly, the declaration and payment of dividends by the Corporation depend upon the Bank's earnings and financial condition, general economic conditions, compliance with regulatory requirements, and other factors.

Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2001, 2000 and 1999

BACKGROUND

Citizens Holding Company (the "Company") is a one-bank holding company that holds 97.44% of the outstanding shares of The Citizens Bank of Philadelphia, Mississippi (the "Bank"). The Company was incorporated under Mississippi law on February 16, 1982.

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, 2001, the Bank was the largest bank headquartered in Neshoba County with total assets of \$426,684,787 and total deposits of \$360,065,165. The principal executive offices of both the Company and the Bank are located at 521 Main Street, Philadelphia, Mississippi 39350 and its telephone number is (601) 656-4692. All references hereinafter to the activities or operations of the Company reflect the Company's acting or operating through the Bank.

OVERVIEW

The Company continued in 2001 to show good growth for the period in assets and loans. Total assets at the end of 2001 were \$427,212,874, an increase of 11.6% over 2000; net loans were \$260,903,091, an increase of 4.9% over 2000 and deposits increased to \$359,309,007, an increase of 24.9% over 2000. This increase was aided by the acquisition in July 2001 of the two Union Planters branches in Forest and Decatur which added \$30,506,745 in assets, including \$11,703,517 in loans and \$30,284,185 in deposits.

Net income after taxes of the Company for 2001 increased by 3.2% from 2000 to \$5,710,898. Net income was affected in 2001 by a decrease in interest paid on deposits and other borrowed money. Net income for 2000 and 1999 was down 1.6% and up 19.3%, respectively, both years' increases in net income being influenced greatly by the fluctuating interest rate environment and asset and loan growth. Net income for 2001 produced, on a fully diluted basis, earnings per share of \$1.15 compared to \$1.11 for 2000 and \$1.13 for 1999.

The Company's Return on Average Assets (ROA) was 1.41% in 2001, compared to 1.48% in 2000 and 1.62% in 1999, and our Return on Average Equity (ROE) was 11.98% in 2001, 13.60% in 2000 and 14.95% in 1999. Although net income increased in 2001, ROA and ROE decreased because net income increased at a lower rate than average assets and average equity. In 2000, ROE and ROA also decreased due to a larger growth in assets and equity at the same time when earnings were relatively flat. ROE has declined over the last five years due to the retention of retained earnings that caused our capital percentages to rise. During this period, leverage capital ratios increased from 10.46% in 1997 to 10.51% in 2001 even though assets increased 49%.

SELECTED DATA

The following selected data has been taken from the Company's consolidated financial statements and should be read in conjunction with the consolidated financial statements and related notes included elsewhere. 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. All dollar references in the following tables are in thousands except for per share data. All per share data has been adjusted to give effect to the three-for-two stock split of January 2, 2002.

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

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| SUMMARY OF EARNINGS | | | | | |
| Total Interest Income | \$ 29,119 | \$ 28,638 | \$ 25,476 | \$ 23,956 | \$ 21,588 |
| Total Interest Expense | 13,399 | 14,064 | 10,974 | 10,860 | 9,659 |
| Provision for loan losses | 1,123 | 918 | 849 | 846 | 740 |
| Non-interest income | 3,980 | 3,285 | 3,122 | 2,897 | 2,990 |
| Non-interest expense | 10,308 | 8,772 | 8,361 | 7,948 | 7,046 |
| Income tax expense | 2,558 | 2,635 | 2,793 | 2,487 | 2,561 |
| Net Income | 5,711 | 5,534 | 5,621 | 4,712 | 4,490 |
| PER SHARE DATA | | | | | |
| Earnings-basic | \$ 1.15 | \$ 1.12 | \$ 1.13 | \$ 0.95 | \$ 0.91 |
| Earnings-diluted | \$ 1.15 | \$ 1.11 | \$ 1.13 | \$ 0.95 | \$ 0.91 |
| Cash dividends | \$ 0.383 | \$ 0.283 | \$ 0.213 | \$ 0.160 | \$ 0.113 |
| Book value at year end | \$ 9.51 | \$ 8.74 | \$ 7.57 | \$ 7.15 | \$ 6.29 |
| SELECTED YEAR END ACTUAL BALANCES | | | | | |
| Loans, net of unearned income | \$264,278 | \$252,022 | \$234,349 | \$211,349 | \$194,304 |
| Allowance for possible loan losses | (3,375) | (3,325) | (3,100) | (2,900) | (2,700) |
| Investment securities | 122,567 | 103,533 | 102,451 | 91,539 | 67,292 |
| Total assets | 427,213 | 382,800 | 362,790 | 334,232 | 286,634 |
| Deposits | 359,309 | 289,908 | 284,462 | 282,242 | 248,984 |
| Long term borrowings | 14,629 | 10,000 | 10,000 | 10,000 | - |
| Shareholders' equity | 47,182 | 43,377 | 37,546 | 35,455 | 31,220 |

SELECTED YEAR END AVERAGE BALANCES

| | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Loans, net of unearned income | \$255,185 | \$244,307 | \$221,165 | \$202,228 | \$186,843 |
| Allowance for possible loan losses | (3,335) | (3,198) | (2,974) | (2,701) | (2,523) |
| Investment securities | 106,632 | 102,325 | 97,219 | 79,401 | 70,023 |
| Total assets | 403,881 | 374,439 | 347,613 | 314,896 | 279,961 |
| Deposits | 327,536 | 290,704 | 288,176 | 268,514 | 242,459 |
| Long term borrowings | 14,815 | 10,000 | 10,000 | 7,630 | 3 |
| Shareholders' equity | 47,664 | 40,701 | 37,603 | 33,513 | 28,920 |

SELECTED RATIOS

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Return on average assets | 1.41% | 1.48% | 1.62% | 1.50% | 1.60% |
| Return on average equity | 11.98% | 13.60% | 14.95% | 14.08% | 15.24% |
| Dividend payout ratio | 33.31% | 25.41% | 18.84% | 16.85% | 12.52% |
| Equity to year end assets | 11.04% | 11.33% | 10.35% | 10.61% | 10.89% |
| Total risk-based capital to risk-adjusted assets | 18.40% | 18.88% | 18.52% | 18.13% | 17.02% |
| Leverage capital ratio | 10.51% | 11.61% | 11.06% | 10.61% | 10.46% |
| Efficiency ratio | 51.32% | 47.20% | 45.48% | 48.01% | 45.56% |

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 determined by several factors, including the volume of earning assets and liabilities, the mix of earning assets and liabilities and interest rates.

Net interest income on a tax equivalent basis was \$16,047,000, \$14,403,000 and \$14,455,000 and the net interest margin percentage was 4.32%, 4.16% and 4.52% for the years 2001, 2000 and 1999, respectively. In 2001, the yield on earnings assets decreased to 7.91% from 8.22% and the rate on interest-bearing liabilities decreased to 4.35% from 4.85%. Earning assets volume increased 7.4% while interest-bearing liabilities volume increased 6.2% in 2001. The larger increases in volume of interest-bearing assets and the smaller interest rate reduction combined to cause the rise in net interest income in 2001.

In 2000, the yield on earning assets increased to 8.22% from 7.94% and the rate on interest-bearing liabilities increased to 4.85% from 4.11%. Total volume of earning assets increased 8.2% while interest-bearing liabilities increased 8.8% in 2000.

In 1999, the yield on earning assets declined 15 basis points from 1998 but was overcome by a 38 basis point decline in the rate on interest-bearing liabilities. This combination was the main reason that the net interest margin increased to 4.52% in 1999.

During this three year period, loan demand has remained strong and has allowed the Company to continue to invest its available funds in loans that provide the Company with yields that are greater than the yields on investment securities. Strong deposit growth in 2001 allowed the Company to reduce its dependence on wholesale funding such as advances from the Federal Home Loan Bank and federal funds purchased.

TABLE 2 - AVERAGE BALANCE SHEETS AND INTEREST RATES

| | Average Balance | | | Income/Expense | | | Average Yield/Rate | | |
|--|-----------------|-----------|-----------|----------------|----------|----------|--------------------|--------|--------|
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Loans: | | | | | | | | | |
| Commercial Loans | \$232,424 | \$221,671 | \$199,537 | \$20,275 | \$19,568 | \$17,138 | 8.72% | 8.83% | 8.59% |
| Installment Loans (Net) | 21,521 | 21,572 | 20,751 | 2,503 | 2,319 | 2,199 | 11.63% | 10.75% | 10.60% |
| Total Loans | 253,945 | 243,243 | 220,288 | 22,778 | 21,887 | 19,337 | 8.97% | 9.00% | 8.78% |
| Investment Securities | | | | | | | | | |
| Taxable | 78,423 | 79,533 | 80,075 | 4,671 | 5,067 | 4,729 | 5.96% | 6.37% | 5.91% |
| Tax-exempt | 23,952 | 22,370 | 16,143 | 1,498 | 1,438 | 1,191 | 6.25% | 6.43% | 7.38% |
| Total Investment Securities | 102,375 | 101,903 | 96,218 | 6,169 | 6,505 | 5,920 | 6.03% | 6.38% | 6.15% |
| Federal Funds Sold and Other | 15,681 | 1,181 | 3,541 | 487 | 75 | 172 | 3.11% | 6.35% | 4.86% |
| Total Interest Earning Assets | 372,001 | 346,327 | 320,047 | 29,434 | 28,467 | 25,429 | 7.91% | 8.22% | 7.95% |
| Non-Earning Assets | | | | | | | | | |
| | 31,880 | 28,112 | 27,566 | | | | | | |
| Total Assets | \$403,881 | \$374,439 | \$347,613 | | | | | | |
| Deposits: | | | | | | | | | |
| Interest-bearing Demand Dep | \$ 82,127 | \$ 75,810 | \$ 77,821 | \$ 1,930 | \$ 2,333 | \$ 2,099 | 2.35% | 3.08% | 2.70% |
| Savings | 19,828 | 19,271 | 19,481 | 521 | 672 | 603 | 2.63% | 3.49% | 3.10% |
| Time | 183,883 | 158,185 | 153,497 | 9,727 | 8,747 | 7,385 | 5.29% | 5.53% | 4.81% |
| Total Deposits | 285,838 | 253,266 | 250,799 | 12,178 | 11,752 | 10,087 | 4.26% | 4.64% | 4.02% |
| Borrowed Funds | | | | | | | | | |
| Short-term Borrowings | 9,721 | 26,696 | 5,805 | 544 | 1,748 | 323 | 5.60% | 6.55% | 5.56% |
| Long-term Borrowings | 12,407 | 10,000 | 10,000 | 665 | 564 | 564 | 5.36% | 5.64% | 5.64% |
| Total Borrowed Funds | 22,128 | 36,696 | 15,805 | 1,209 | 2,312 | 887 | 5.46% | 6.30% | 5.61% |
| Total Interest-Bearing Liabilities | 307,966 | 289,962 | 266,604 | 13,387 | 14,064 | 10,974 | 4.35% | 4.85% | 4.12% |
| Non-Interest Bearing Liabilities | | | | | | | | | |
| Demand Deposits | 41,368 | 37,439 | 37,377 | | | | | | |
| Other Liabilities | 6,883 | 6,334 | 6,029 | | | | | | |
| Shareholders' Equity | 47,664 | 40,704 | 37,603 | | | | | | |
| Total Liabilities and Shareholders' Equity | \$403,881 | \$374,439 | \$347,613 | | | | | | |
| INTEREST RATE SPREAD | | | | | | | 3.56% | 3.37% | 3.83% |
| NET INTEREST INCOME | | | | \$16,047 | \$14,403 | \$14,455 | | | |
| NET INTEREST MARGIN | | | | | | | 4.32% | 4.16% | 4.52% |

Table 3 - Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2001, 2000, and 1999.

TABLE 3 - NET AVERAGE INTEREST EARNING ASSETS

| | 2001 | 2000 | 1999 |
|--------------------------------------|-----------|-----------|-----------|
| Average interest earning assets | \$372,001 | \$346,327 | \$320,047 |
| Average interest bearing liabilities | 307,966 | 289,962 | 266,604 |
| Net average interest earning assets | \$ 64,035 | \$ 56,365 | \$ 53,443 |

Table 4 - Volume/Rate Analysis depicts the dollar effect of volume and rate changes from 1999 through 2001. Variances which were not specifically attributable to volume or rate were allocated proportionately between rate and volume using the absolute values of each for a basis for the allocation. Non-accruing loans were included in the average loan balances used in determining the yields. Interest income on tax-exempt securities and loans has been adjusted to a tax equivalent basis using a marginal federal income tax rate of 34%.

TABLE 4 - VOLUME/RATE ANALYSIS

| | 2001 Change from 2000 | | | 2000 Change from 1999 | | |
|----------------------------------|-----------------------|---------------|-----------------|-----------------------|-----------------|----------------|
| | Volume | Rate | Total | Volume | Rate | Total |
| INTEREST INCOME | | | | | | |
| Loans | 960 | -69 | 891 | 2,066 | 484 | 2,550 |
| Taxable Securities | -66 | -330 | -396 | -34 | 372 | 338 |
| Non-Taxable Securities | 99 | -39 | 60 | 1,332 | -1,085 | 247 |
| Federal Funds Sold and Other | 450 | -38 | 412 | -157 | 60 | -97 |
| TOTAL INTEREST INCOME | \$1,443 | -\$476 | \$ 967 | \$3,207 | -\$169 | \$3,038 |
| INTEREST EXPENSE | | | | | | |
| Interest-bearing demand deposits | 148 | -551 | -403 | -62 | 296 | 234 |
| Savings Deposits | 15 | -166 | -151 | -7 | 76 | 69 |
| Time Deposits | 1,359 | -379 | 980 | 259 | 1,103 | 1,362 |
| Short-term borrowings | -950 | -254 | -1,204 | 1,368 | 57 | 1,425 |
| Long-term borrowings | 129 | -28 | 101 | 0 | 0 | 0 |
| TOTAL INTEREST EXPENSE | 701 | -1,378 | -677 | 1,558 | 1,532 | 3,090 |
| NET INTEREST INCOME | \$ 742 | \$ 902 | \$ 1,644 | \$1,649 | -\$1,701 | -\$52 |

PROVISION FOR LOAN LOSSES AND ASSET QUALITY

The provision for loan losses represents charges against operations to establish reserves for probable loan losses inherent in the Company's loan portfolio. This expense is determined by

a number of factors including historical loan losses, assessment of specific credit weaknesses within the portfolio, assessment of the prevailing economic climate, and other factors that may affect the overall condition of the loan portfolio. The ratio of net loans charged off to average loans was .42% in 2001, .28% in 2000, .29% in 1999, .32% in 1998 and .29% in 1997. These percentages are representative of normal loan charge-offs and are not the result of an economic downturn in any particular segment of our economy. Management evaluates the adequacy of the allowance for loan loss on a quarterly basis and makes provisions to the allowance based on this analysis.

The provision was \$1,123,166 in 2001, \$917,519 in 2000, \$849,344 in 1999, \$846,466 in 1998 and \$740,309 in 1997. At the end of 2001, the allowance for loan losses was \$3,375,000, an amount that management considers to be sufficient to protect against future loan losses.

Activity in the allowance for loan losses is reflected in Table 5 - Analysis of Allowance for Loan Losses. The Company's policy is to charge-off loans, when, in management's opinion, the loan is deemed uncollectable, although concerted efforts are made to maximize recovery of the loan after it is charged off.

TABLE 5 - ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|-----------|-----------|-----------|-----------|-----------|
| BALANCE AT BEGINNING OF YEAR | \$ 3,325 | \$ 3,100 | \$ 2,900 | \$ 2,700 | \$ 2,500 |
| LOANS CHARGED-OFF | | | | | |
| Commercial, financial and agricultural | 612 | 186 | 320 | 364 | 326 |
| Real estate - construction | 0 | 0 | 0 | 0 | 0 |
| Real estate - mortgage | 36 | 26 | 74 | 10 | 13 |
| Consumer | 675 | 801 | 522 | 505 | 449 |
| TOTAL CHARGE-OFFS | 1,323 | 1,013 | 916 | 879 | 788 |
| CHARGE-OFFS RECOVERED | | | | | |
| Commercial, financial and agricultural | 22 | 121 | 122 | 55 | 89 |
| Real estate - construction | 0 | 0 | 0 | 0 | 0 |
| Real estate - mortgage | 26 | 24 | 0 | 3 | 0 |
| Consumer | 202 | 175 | 145 | 175 | 159 |
| TOTAL RECOVERIES | 250 | 320 | 267 | 233 | 248 |
| Net loans charged-off | 1,073 | 693 | 649 | 646 | 540 |
| Current year provision | 1,123 | 918 | 849 | 846 | 740 |
| BALANCE AT END OF YEAR | \$ 3,375 | \$ 3,325 | \$ 3,100 | \$ 2,900 | \$ 2,700 |
| Loans at year end | \$264,278 | \$252,022 | \$234,349 | \$211,349 | \$191,605 |
| Ratio of allowance to loans at year end | 1.28% | 1.32% | 1.32% | 1.37% | 1.41% |
| Average loans - net of unearned | \$255,185 | \$244,307 | \$221,165 | \$202,228 | \$186,843 |
| Ratio of net loans charged-off to average loans | 0.42% | 0.28% | 0.29% | 0.32% | 0.29% |

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES AT DECEMBER 31,

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|----------------|----------------|----------------|----------------|----------------|
| Commercial, financial and agricultural | \$1,200 | \$1,000 | \$ 900 | \$ 850 | \$ 800 |
| Real estate - construction | 250 | 250 | 225 | 225 | 225 |
| Real estate - mortgage | 700 | 650 | 600 | 575 | 550 |
| Consumer | 1,175 | 1,075 | 1,050 | 950 | 850 |
| Unallocated | 50 | 350 | 325 | 300 | 275 |
| Total | \$3,375 | \$3,325 | \$3,100 | \$2,900 | \$2,700 |

COMPOSITION OF LOAN PORTFOLIO BY TYPE AT DECEMBER 31,

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|---------|---------|---------|---------|---------|
| Commercial, financial and agricultural | 47.25% | 48.02% | 47.52% | 46.25% | 46.08% |
| Real estate - construction | 2.26% | 2.08% | 3.02% | 3.11% | 2.30% |
| Real estate - mortgage | 30.18% | 29.35% | 28.43% | 27.40% | 27.50% |
| Consumer | 20.31% | 20.55% | 21.03% | 23.24% | 24.12% |
| | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Non-performing assets and relative percentages to loan balances are presented in Table 6 - Non-performing Assets. Non-performing loans include non-accrual loans, restructured loans, and loans delinquent 90 days or more. Loans are classified as non-accrual when management believes that collection of interest is doubtful, typically when payments are past due over 90 days, unless well secured and in the process of collection. Another element associated with asset quality is other real estate owned (OREO), which represents properties acquired by the Company through loan defaults by customers.

Loans on non-accrual status amounted to \$418,813 in 2001 and the effect of such loan classification was to reduce interest income by \$123,804. All interest accrued on these loans at the time they are classified as non-accrual is reversed and interest accruals are suspended until such time that the loan is in compliance with its terms.

TABLE 6 - NON-PERFORMING ASSETS

As of December 31,

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|----------|----------|----------|----------|----------|
| PRINCIPAL BALANCE - DOMESTIC | | | | | |
| Non-accrual | \$ 419 | \$ 590 | \$ 390 | \$ 649 | \$ 344 |
| 90 days or more past due | 2,918 | 1,746 | 1,643 | 1,641 | 1,862 |
| Troubled debt restructuring | 0 | 0 | 0 | 0 | 0 |
| TOTAL DOMESTIC LOANS | \$ 3,337 | \$ 2,336 | \$ 2,033 | \$ 2,290 | \$ 2,206 |
| PRINCIPAL BALANCE - FOREIGN | | | | | |
| Non-accrual | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| 90 days or more past due | 0 | 0 | 0 | 0 | 0 |
| Troubled debt restructuring | 0 | 0 | 0 | 0 | 0 |
| TOTAL FOREIGN LOANS | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| TOTAL NON-PERFORMING LOANS | \$ 3,337 | \$ 2,336 | \$ 2,033 | \$ 2,290 | \$ 2,206 |
| Income on non-accrual loans not recorded | \$ 31 | \$ 147 | \$ 110 | \$ 135 | \$ 32 |
| Non-performing as a percent of loans | 1.27% | 0.93% | 0.87% | 1.08% | 1.15% |
| Other real estate owned | \$ 340 | \$ 133 | \$ 292 | \$ 57 | \$ 10 |
| OREO as a percent of loans | 0.13% | 0.05% | 0.15% | 0.03% | 0.01% |
| Allowance as a percent of non-performing loans | 101.14% | 142.34% | 152.48% | 126.64% | 122.39% |

Statements of Financial Accounting Standard No. 114 and 118, "Accounting by Creditors for Impairment of a Loan," became effective January 1, 1995. These statements changed the way loan loss allowance estimates were to be made for problem loans. In general, when it is determined 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 has not recognized any loans as being impaired in conformity with FASB 114 and 118 for the years 2001, 2000, 1999, 1998 and 1997.

Management believes loans classified for regulatory purposes as loss, doubtful or substandard that are not included in non-performing or impaired loans do not represent or result from trends or uncertainties which will have a material impact on future operating results, liquidity, or capital resources. 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, concern about the borrower's financial condition or the value of the collateral securing the loan, 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 with loss potential that are still performing and accruing interest and may be current under the terms of the loan agreement; however, management may have a significant degree of concern about the borrowers' ability to continue to perform according to the terms of the loan. Loss exposure on these loans is typically evaluated based primarily upon the estimated liquidation value of the collateral securing the loan. Also, watch category loans may include credits which, although adequately secured and performing, reflect a past delinquency problem or unfavorable financial trends exhibited by the borrower.

NON-INTEREST INCOME AND EXPENSE

A listing of non-interest income and expense from 1999 through 2001 and percentage changes between years is included in Table 7 - Non-interest Income and Expense.

TABLE 7 - NON-INTEREST INCOME & EXPENSE

| | 2001 | % CHANGE FROM '00 | 2000 | % CHANGE FROM '99 | 1999 |
|-------------------------------------|-----------------|----------------------|----------------|----------------------|----------------|
| NON-INTEREST INCOME | | | | | |
| Income from fiduciary activities | \$ 2 | 0.00% | \$ 2 | 0.00% | \$ 2 |
| Service charges on deposit accounts | 2,810 | 13.77% | 2,470 | 4.13% | 2,372 |
| Other operating income | 1,168 | 43.79% | 813 | 8.69% | 748 |
| TOTAL NON-INTEREST INCOME | \$ 3,980 | 21.19% | \$3,285 | 5.22% | \$3,122 |
| NON-INTEREST EXPENSE | | | | | |
| Salaries and employee benefits | \$ 5,597 | 14.18% | \$4,902 | 5.28% | \$4,656 |
| Occupancy expense | 1,631 | 17.68% | 1,386 | 1.54% | 1,365 |
| Other operating expense | 3,080 | 23.99% | 2,484 | 6.20% | 2,340 |
| TOTAL NON-INTEREST EXPENSE | \$10,308 | 17.51% | \$8,772 | 4.93% | \$8,361 |

Non-interest income typically consists of service charges on checking accounts and other financial services. With continued pressure on net interest income, 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, safe deposit box rentals, credit life insurance premiums, title insurance service fees and income contributions from the Company's credit life insurance subsidiary.

Non-interest income for 2001 was \$3,980,612, an increase of \$695,792 or 21.2% over 2000. This increase was attributable to increases in checking account service charges related to volume increases, an increase in the number of safe deposit boxes rented, and another year of

increased income from its credit life and title insurance subsidiaries and fees from its mortgage origination department.

Similarly, non-interest income rose by \$162,598 or 5.2% in 2000 over 1999. This increase was also due to increased fees from the addition of more deposit accounts and good earnings growth from the credit life subsidiary.

Non-interest expenses consist of salaries and benefits, occupancy expense and other overhead expenses incurred by the Company in the transaction of its business. Non-interest expense increased \$1,536,558 or 17.5% in 2001 over 2000 and increased \$411,663 in 2000 over 1999. The increases in both years were mainly from normal growth activity in the Company although the purchase of the Union Planters branches contributed significantly to the increase in 2001.

In 2001, the Company's efficiency ratio was 51.32% compared to 47.20% in 2000 and 45.48% in 1999. 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 Corporation 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 major difference between the effective tax rate applied to the Corporation's financial statement income and the federal statutory rate of 34% is interest on tax-exempt securities and loans.

The Corporation's effective tax rate was 30.93%, 32.26% and 33.19% in 2001, 2000 and 1999, respectively. Further tax information regarding the Corporation is disclosed in Note 5 to the consolidated financial statements.

SECURITIES

At December 2001, the Corporation classified all of its securities as available-for-sale. Securities available-for-sale are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. The Corporation does not classify any securities as held to maturity or held for trading purposes.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires companies to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In 1999, SFAS No. 133 was amended to extend its effective date such that it is applicable to financial statements for all fiscal quarters beginning after June 15, 1999. Management does not believe that the implementation of SFAS No. 133 will have any impact on the financial statements of the Company because the Company does not engage in derivative or hedging activities.

Table 8 - Securities and Securities Maturity Schedule summarizes the carrying value of securities from 1999 through 2001 and the maturity distribution at December 31, 2001, by classification.

TABLE 8 - SECURITIES

| | 2001 | 2000 | 1999 |
|-------------------------------------|-----------|-----------|-----------|
| | ----- | | |
| SECURITIES AVAILABLE FOR SALE | | | |
| U. S. Treasury | \$ 31,014 | \$ 41,341 | \$ 41,428 |
| U. S. Agencies | 10,676 | 20,147 | 18,670 |
| Mortgage Backed | 52,362 | 15,925 | 19,466 |
| State, Municipal and Other | 28,515 | 26,120 | 22,887 |
| | ----- | | |
| TOTAL SECURITIES AVAILABLE FOR SALE | \$122,567 | \$103,533 | \$102,451 |
| | ----- | | |
| SECURITIES HELD TO MATURITY | | | |
| TOTAL SECURITIES HELD TO MATURITY | \$ 0 | \$ 0 | \$ 0 |
| | ----- | | |
| TOTAL SECURITIES | \$122,567 | \$103,533 | \$102,451 |
| | ===== | | |

SECURITIES MATURITY SCHEDULE

| | 1 year or less | | 1 to 5 years | | 5 to 10 years | | over 10 years | |
|--------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Actual Balance | Average Yield | Actual Balance | Average Yield | Actual Balance | Average Yield | Actual Balance | Average Yield |
| AVAILABLE-FOR-SALE | | | | | | | | |
| U. S. Treasury | \$12,279 | 6.18% | \$18,735 | 4.47% | \$ 0 | 0.00% | \$ 0 | 0.00% |
| U. S. Agencies | 0 | 0.00% | 6,114 | 6.66% | 4,142 | 6.55% | 420 | 7.23% |
| Mortgage Backed | 536 | 5.44% | 6,038 | 5.91% | 10,855 | 5.80% | 34,690 | 6.14% |
| State, Municipal and Other (1) | 1,817 | 7.77% | 5,063 | 6.59% | 6,636 | 7.07% | 15,242 | 7.50% |
| TOTAL AVAILABLE-FOR-SALE | \$14,632 | 6.35% | \$35,950 | 5.38% | \$21,633 | 6.33% | \$50,352 | 6.56% |
| TOTAL HELD-TO-MATURITY | \$ 0 | 0.00% | \$ 0 | 0.00% | \$ 0 | 0.00% | \$ 0 | 0.00% |

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

Although the change in equity due to market value fluctuations in the available-for-sale portfolio is not used in the Tier 1 capital calculation, the change which occurred in the unrealized gain/loss on securities between 2001 and 2000 was a result of the changing in the interest rate environment during that period, in conjunction with the change in the portfolio mix.

LOANS

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

The Company has stated in its Loan Policy the following objectives for its loan portfolio: (a) to make loans on sound and thorough credit analysis, (b) proper documentation of all loans, (c) to eliminate loans from the portfolio that are under-priced, high risk or difficult and costly to administer, (d) to seek good relationships with the customer, (e) to avoid undue concentrations of loans, and (f) to keep non-accrual loans to a minimum by aggressive collection policies.

In general, the loan growth experienced in 2001 was due to a continuation of the overall growth in the area that is served by the Company. The acquisition of the Union Planters branches added approximately \$11,703,517 in loans in the second quarter of 2001. The continued success of the casino on the nearby Choctaw Indian Reservation caused an increase in the number of businesses to serve the visitors drawn by the casino. The increase of jobs in the area also helped to tighten the housing market in the area and caused a large number of new houses to be built. This is evidenced by the fact that real estate mortgage loans grew by \$5,724,725 or 7.7% in 2001, \$7,447,552 or 11.1% in 2000 and \$8,738,416 or 14.9% in 1999.

Commercial and agricultural loans also showed large growth during this period. These loans grew \$3,718,912 or 3.0% in 2001, \$9,777,317 or 8.7% in 2000 and \$13,678,304 or 13.8% in 1999. This increase was not caused solely by the influence of the casino in the area, but was due in part to an increase in the number of loans to poultry producers originated during this period.

Consumer loans have shown moderate growth during the period. This category increased \$1,824,679 or 3.5% in 2001, \$2,554,094 or 5.1% in 2000 and \$106,008 or .2% in 1999. Changes in consumer purchasing habits and the increase in loan sources have affected the growth of this segment of loans. Low unemployment has insured that more people have jobs and that some people have improved their employment and in turn has lessened the dependence on consumer loans for some purchases.

Commercial and agricultural loans are the largest segment of the loan portfolio and, by nature, bear a higher degree of risk. Management is aware of the growth of loans in this category and believes the lending practices, policies, and procedures surrounding this loan category are adequate to manage this risk.

Table 9 - Loans Outstanding reflects outstanding balances by loan type for the past five years. Additional loan information is presented in Note 4 to the consolidated financial statements.

TABLE 9 - LOANS OUTSTANDING
AT DECEMBER 31,

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|-----------|-----------|-----------|-----------|-----------|
| Commercial, financial and agricultural | \$126,131 | \$122,412 | \$112,634 | \$ 98,956 | \$ 90,690 |
| Real estate - construction | 6,036 | 5,310 | 7,157 | 6,645 | 4,533 |
| Real estate - mortgage | 80,548 | 74,824 | 67,376 | 58,637 | 54,119 |
| Consumer | 54,218 | 52,394 | 49,840 | 49,734 | 47,466 |
| TOTAL LOANS | \$266,933 | \$254,940 | \$237,007 | \$213,972 | \$196,808 |

Table 10 - Loan Liquidity and Sensitivity to Changes in Interest Rates reflects the maturity schedule or repricing frequency of all loans. Also indicated are fixed and variable rate loans maturing after one year for all loans.

TABLE 10 - LOAN LIQUIDITY
LOAN MATURITIES AT DECEMBER 31, 2001

| | 1 YEAR OR LESS | 1 - 5 YEARS | OVER 5 YEARS | TOTAL |
|--|-------------------|------------------|-----------------|------------------|
| Commercial, financial and agricultural | \$35,641 | \$ 38,787 | \$51,703 | \$126,131 |
| Real estate - construction | 5,245 | 743 | 48 | 6,036 |
| Real estate - mortgage | 8,199 | 58,360 | 13,989 | 80,548 |
| Consumer | 23,287 | 29,436 | 1,495 | 54,218 |
| Total loans | \$72,372 | \$127,326 | \$67,235 | \$266,933 |

SENSITIVITY TO CHANGES IN INTEREST RATES

| | 1 - 5 YEARS | OVER 5 YEARS |
|--------------------|------------------|-----------------|
| Fixed rates | \$126,345 | \$54,927 |
| Variable rates | 981 | 12,308 |
| Total loans | \$127,326 | \$67,235 |

DEPOSITS

The Company offers a wide variety of deposit services to individual and commercial customers, such as non-interest-bearing and interest-bearing checking accounts, savings accounts, money market deposit accounts, and certificates of deposit. The deposit base provides the major funding source for earning assets. Time deposits continue to be the largest single source of the Company's deposit base.

A three-year schedule of deposits by type and maturities of time deposits greater than \$100,000 is presented in Table 11 - Deposit Information.

TABLE 11 - DEPOSIT INFORMATION

| | 2001 | | 2000 | | 1999 | |
|-------------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Noninterest-bearing | \$ 41,698 | | \$ 37,438 | | \$ 37,378 | |
| Interest-bearing demand | 82,127 | 2.35% | 75,810 | 3.08% | 77,820 | 2.69% |
| Savings | 19,828 | 2.63% | 19,271 | 3.43% | 19,481 | 3.09% |
| Certificates of deposit | 183,883 | 5.29% | 158,185 | 5.53% | 153,497 | 4.81% |
| | \$327,536 | 3.72% | \$290,704 | 4.04% | \$288,176 | 3.50% |

MATURITY RANGES OF TIME DEPOSITS OF \$100,000 OR MORE
AT DECEMBER 31,

| | 2001 |
|---------------------|----------|
| 3 months or less | \$28,609 |
| 3 through 6 months | 18,277 |
| 6 through 12 months | 18,893 |
| over 12 months | 7,468 |
| | \$73,247 |

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

BORROWINGS

Aside from the core deposit base and large denomination certificates of deposit mentioned above, the remaining funding sources 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 and long-term borrowings from the Federal Home Loan Bank of Dallas (FHLB), and U.S. Treasury demand notes for treasury, tax and loan (TT&L).

TABLE 12 - SHORT-TERM BORROWINGS

As of December 31,

| | 2001 | 2000 | 1999 |
|-----------------------------------|----------|----------|----------|
| Federal Home Loan Bank borrowings | | | |
| Year-end balance | \$ 0 | \$32,000 | \$13,100 |
| Weighted average rate | 0.00% | 6.39% | 5.93% |
| Maximum month-end balance | \$34,300 | \$32,000 | \$13,100 |
| Year to date average balance | \$ 7,862 | \$14,389 | \$ 1,762 |
| Weighted average rate | 5.38% | 6.61% | 5.58% |

The Company foresees short-term borrowings to be a continued source of liquidity and will continue to use these borrowings as a method to fund short-term needs. The Company has the capacity to borrow up to \$92,171,500 from the FHLB and other financial institutions in the form of federal funds purchased and will use these borrowings if circumstances warrant such action.

The Company, at the end of 2001, had long-term debt in the amount of \$14,628,788 to the Federal Home Loan Bank for advances and \$2,057,402 payable to the State of Mississippi for advances under the Agribusiness Enterprise Loan Program. This program provides monies to banks to be extended to qualifying farmers at no interest. Farmers that qualify for the program receive 20% of their loan at zero interest. When the loan is repaid, the State receives its pro-rata share of 20% of the principal payment. The remaining maturity schedule of the long-term debt at December 31, 2001 is listed below.

| | 2001 |
|----------------------------|----------|
| Less than one year | \$ 923 |
| One year to three years | 2,028 |
| Over three years | 13,735 |
| Total Long-term borrowings | \$16,686 |

LIQUIDITY AND RATE SENSITIVITY

Liquidity management is the process by which the Company ensures that adequate liquid funds are available to meet 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.

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. Managing and measuring the interest rate risk is the process that ranges from reducing the exposure of the Company's interest margin to swings in interest rates to assuring that there is sufficient capital and liquidity to support future balance sheet growth.

The Bank's source of funding is predominantly 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. The growth of core deposits has been at a lower growth rate than that of loans. As a result, the Company is increasingly dependent upon non-core sources of funding such as federal funds purchased and short and long term borrowings from the FHLB.

The deposit base is diversified between individual and commercial accounts which help avoid dependence on large concentrations of funds. The Company does not solicit certificates of deposit from brokers. The primary sources of liquidity on the asset side of the balance sheet are federal funds sold and securities classified as available-for-sale. All of the investment securities portfolio are classified in the available-for-sale category, and are available to be sold, should liquidity needs arise.

Table 13 - Funding Uses and Sources details the main components of cash flows for 2001 and 2000.

TABLE 13 - FUNDING USES AND SOURCES

| | 2001 | | | 2000 | | |
|--|------------------|----------------------------|--------------|------------------|----------------------------|--------------|
| | Average Balance | Increase/(decrease) Amount | Percent | Average Balance | Increase/(decrease) Amount | Percent |
| FUNDING USES | | | | | | |
| Loans, net of unearned | \$255,185 | \$ 10,878 | 4.45% | \$244,307 | \$23,142 | 10.46% |
| Taxable securities | 78,423 | -1,110 | -1.40% | 79,533 | -541 | 0.68% |
| Tax-exempt securities | 23,952 | 1,582 | 7.07% | 22,370 | 6,227 | 38.57% |
| Federal funds sold and other | 15,681 | 14,500 | 1227.77% | 1,181 | -2,360 | -66.60% |
| TOTAL USES | \$373,241 | \$ 25,850 | 7.44% | \$347,391 | \$26,468 | 8.49% |
| FUNDING SOURCES | | | | | | |
| Noninterest-bearing deposits | \$ 41,698 | \$ 3,929 | 10.49% | \$ 37,439 | \$ 62 | 0.17% |
| Interest-bearing demand and savings deposits | 101,955 | 6,874 | 7.23% | 95,081 | -2,220 | -2.28% |
| Time Deposits | 183,883 | 25,698 | 16.25% | 158,185 | 4,688 | 3.05% |
| Short-term borrowings | 9,721 | -16,975 | -63.59% | 26,696 | 20,891 | 359.88% |
| Long-term debt | 16,956 | 4,285 | 33.82% | 12,671 | -5 | -0.04% |
| TOTAL SOURCES | \$354,213 | \$ 23,811 | 7.21% | \$330,072 | \$23,416 | 7.64% |

Rate sensitivity gap is defined as 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 14 - Liquidity and Interest Rate Sensitivity reflects interest earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2001. Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 14 - LIQUIDITY AND INTEREST RATE SENSITIVITY

| | AT DECEMBER 31, 2001 | | | | |
|---|----------------------|------------------|----------------|-----------------|-----------|
| | 1 - 90 Days | 91 - 365 Days | 1 - 5 Years | Over 5 years | Total |
| INTEREST EARNING ASSETS | | | | | |
| Loans | \$ 62,502 | \$ 64,799 | \$124,658 | \$ 5,863 | \$257,822 |
| Investment securities | 5,437 | 11,011 | 31,517 | 73,012 | 120,977 |
| Federal Home Loan Bank Account | 5,421 | 0 | 0 | 0 | 5,421 |
| Federal Funds Sold | 6,100 | 0 | 0 | 0 | 6,100 |
| TOTAL INTEREST BEARING ASSETS | \$ 79,460 | \$ 75,810 | \$156,175 | \$78,875 | \$390,320 |
| INTEREST BEARING LIABILITIES | | | | | |
| Interest bearing demand deposits | \$ 80,006 | \$ 0 | \$ 0 | \$ 0 | \$ 80,006 |
| Savings deposits | 22,376 | 0 | 0 | 0 | 22,376 |
| Time deposits | 77,051 | 103,446 | 14,139 | 0 | 194,636 |
| Short term borrowings | 0 | 0 | 0 | 0 | 0 |
| Long term borrowings | 226 | 697 | 15,763 | 0 | 16,686 |
| TOTAL INTEREST BEARING LIABILITIES | \$ 179,659 | \$ 104,143 | \$ 29,902 | \$ 0 | \$313,704 |
| Rate sensitive gap | -\$100,199 | -\$28,333 | \$126,273 | \$78,875 | \$ 76,616 |
| Rate sensitive cumulative gap | -100,199 | -128,532 | -2,259 | 76,616 | |
| Cumulative gap as a percentage of total earning assets | -25.67% | -32.93% | -0.58% | 19.63% | |

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

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

The Company's large negative cumulative gap position in the one-year period ending December 31, 2001 was mainly due to: (1) the interest-bearing and savings deposits being classified in the 1-90 day category; (2) approximately 93% of certificates of deposit maturing during the next twelve months; and (3) a significant portion of the Company's loans maturing after one year. A decline in the interest rate environment would enhance earnings, while an increase in interest rates would have the opposite effect on corporate earnings. The effect would be mitigated by the fact that interest-bearing demand and savings deposits may not be immediately affected by changes in general interest rates.

CAPITAL RESOURCES

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

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires federal regulatory agencies to define capital tiers. These are: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under these regulations, 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. Failure to meet capital requirements can initiate regulatory action that could have a direct material effect on the Company's financial statements. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions, asset growth, and expansion are limited, and the institution is required to submit a capital restoration plan.

Management believes the Company and the Bank meet all the capital requirements to be well-capitalized under the guidelines established by the banking regulators as of December 31, 2001, as noted below in Table 15 - Capital Ratios. To be well-capitalized, the Company and Bank must maintain the prompt corrective action capital guidelines described above.

Management has sought in the past to maintain a high level of capital to allow the Company to respond to growth and acquisition opportunities in our service area. This strategy has allowed us to purchase the two branches from Union Planters in 2001 without having to raise capital. The Company has signed an Agreement and Plan of Share Exchange to purchase CB&T Capital Corporation and Citizens Bank & Trust Company in Louisville, Mississippi in the second quarter of 2002, again without having to raise capital. Because the Company has been able to increase capital through the retention of earnings, the Company has not implemented a plan to raise additional capital at this time nor does it have any plans to do so.

TABLE 15 - CAPITAL RATIOS

| | 2001 | At December 31, 2000 | 1999 |
|--|------------------|-------------------------|------------------|
| Tier 1 capital | | | |
| Shareholders' equity | \$ 47,182 | \$ 43,377 | \$ 37,546 |
| Less: Intangibles | -2,974 | -654 | -650 |
| Add/less: Unrealized loss/(gain) on securities | -157 | -161 | 1,542 |
| Add: Minority interest in equity accounts of unconsolidated subsidiaries | 1,212 | 1,452 | 1,261 |
| TOTAL TIER 1 CAPITAL | \$ 45,263 | \$ 44,014 | \$ 39,699 |
| Total capital | | | |
| Tier 1 capital | \$ 45,263 | \$ 44,014 | \$ 39,699 |
| Allowable allowance for loan losses | 3,299 | 3,124 | 2,876 |
| TOTAL CAPITAL | \$ 48,562 | \$ 47,138 | \$ 42,575 |
| RISK WEIGHTED ASSETS | \$263,901 | \$249,683 | \$229,898 |
| AVERAGE ASSETS (FOURTH QUARTER) | \$430,607 | \$379,130 | \$358,995 |
| RISK BASED RATIOS | | | |
| TIER 1 | 17.15% | 17.63% | 17.27% |
| TOTAL CAPITAL | 18.40% | 18.88% | 18.52% |
| LEVERAGE RATIOS | 10.51% | 11.61% | 11.06% |

INFLATION

For a financial institution, effects of price changes and inflation vary considerably from an industrial organization. Changes in the prices of goods and services are the primary determinant of the industrial company's profit, whereas changes in interest rates have a major impact on a financial institution's profitability. Inflation affects the growth of total assets, but it is difficult to assess its impact because neither the timing nor the magnitude of the changes in the consumer price index directly coincide with changes in interest rates.

During periods of high inflation there are normally corresponding increases in the money supply. During such times financial institutions often experience above average growth in loans and deposits. Also, general increases in the price of goods and services will result in increased operating expenses. Over the past few years the rate of inflation has been relatively low, and its impact on the growth in the balance sheets and increased levels of income and expense has been nominal.

RECENT PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. During 2000, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133-an amendment of FASB Statement No. 133," which concluded that it was appropriate to defer the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2001. The Company does not expect that the adoption of this statement will have a material effect on its financial position or results of operations.

In September 2001, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125)." SFAS No. 140 replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 revises the standard for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. SFAS No. 140 is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2001. The adoption of this statement will not have a material effect on the Company's financial position or results of operations.

During 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142, "Goodwill and other Intangible Assets". SFAS No. 141 requires that all business combinations entered into after June 30, 2001 be accounted for under the purchase method. SFAS No. 142 requires that all intangible assets, including goodwill, that result from business combinations be periodically (at least annually) evaluated for impairment, with any resulting impairment loss being charged against earnings. Also, under SFAS No. 142, goodwill resulting from any business combination accounted for according to SFAS No. 141 will not be amortized, and the amortization of goodwill related to business combinations entered into prior to June 30, 2001 will be discontinued effective, for the Company, January 1, 2002. The Company will adopt the provisions of SFAS No. 141 immediately and the provisions of SFAS No. 142 related to discontinuation of goodwill amortization effective January 1, 2002.

Also during 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations", SFAS No. 143 requires estimated future asset retirement costs to be recognized as a liability, recorded at their fair value and capitalized as part of the asset and depreciated. Under the new pronouncement, the resulting retirement obligation liability is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate. The pronouncement is effective for years beginning after June 15, 2002 although early application is permitted. The Company will adopt the provisions of SFAS No. 143 effective January 1, 2003. Management does not expect the adoption of this pronouncement to have a material effect on the Company's financial statements.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" was also issued by the FASB during 2001 and is effective for years beginning after December 31, 2001. The new pronouncement sets forth requirements for testing and accounting for impairment or disposal of assets to be held and used, assets to be disposed of other than by sale, and assets to be sold. The Company will adopt SFAS No. 144 on January 1, 2002. Its adoption is not expected to have a material impact on the Company's financial statements.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains statements which constitute forward-looking statements and information which are based on management's beliefs, plans, expectations, assumptions and on information currently available to management. The words "may," "should," "expect," "anticipate," "intend," "plan," "continue," "believe," "seek," "estimate," and similar expressions used in this report that do not relate to historical facts are intended to identify forward-looking statements. These statements appear in a number of places in this report. The Corporation notes that a variety of factors could cause the actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the Corporation's and the Bank's business include, but are not limited to, the following: (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Corporation operates; (b) changes in the legislative and regulatory environment that negatively impact the Corporation and Bank through increased operating expenses; (c) increased competition from other financial institutions; (d) the impact of technological advances; (e) expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions; (f) changes in asset quality and loan demand; (g) expectations about overall economic strength and the performance of the economy in the Corporation's market area; and (h) other risks detailed from time to time in the Corporation's filings with the Securities and Exchange Commission. The Corporation does not undertake any obligation to update or revise any forward-looking statements subsequent to the date on which they are made.

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 and 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.

Market/Interest Rate Risk Management

The primary purpose in managing interest rate risk is to effectively invest capital and preserve the value created by the core banking business. The Company utilizes an investment portfolio to manage the interest rate risk naturally created through its business activities. The quarterly interest rate risk report is used to evaluate exposure to interest rate risk, project earnings and manage the composition of the balance sheet and its growth. This report utilizes a 200 basis point rate shock up and down and measures the effect on earnings and the value of equity.

Static gap analysis is also used in measuring interest rate risk. 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, 2001 (\$ in thousands):

| | Interest Sensitive Within | |
|----------------------------------|---------------------------|------------|
| | 90 days | One year |
| Total rate sensitive assets | \$ 79,460 | \$ 75,810 |
| Total rate sensitive liabilities | 179,659 | 104,143 |
| Net gap | (\$100,199) | (\$28,333) |

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

QUARTERLY FINANCIAL TRENDS

| | 2001 | | | | |
|---------------------------|------------------|-------------------|------------------|-------------------|-----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year to Date |
| Interest Income | \$7,259 | \$7,184 | \$7,399 | \$7,277 | \$29,119 |
| Interest Expense | 3,620 | 3,354 | 3,417 | 3,008 | 13,399 |
| Net Interest Income | 3,639 | 3,830 | 3,982 | 4,269 | 15,720 |
| Provision for Loan Losses | 120 | 449 | 174 | 380 | \$ 1,123 |
| Non-interest Income | 905 | 1,123 | 1,066 | 886 | \$ 3,980 |
| Non-interest Expense | 2,417 | 2,405 | 2,533 | 2,953 | \$10,308 |
| Income Taxes | 633 | 613 | 781 | 531 | \$ 2,558 |
| Net Income | \$1,374 | \$1,486 | \$1,560 | \$1,291 | \$ 5,711 |
| Per common share: | | | | | |
| Basic | \$ 0.28 | \$ 0.30 | \$ 0.31 | \$ 0.26 | \$ 1.15 |
| Diluted | \$ 0.28 | \$ 0.30 | \$ 0.31 | \$ 0.26 | \$ 1.15 |
| Cash Dividends | \$0.083 | \$0.100 | \$0.100 | \$0.100 | \$ 0.383 |

| | 2000 | | | | |
|---------------------------|------------------|-------------------|------------------|-------------------|-----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year to Date |
| Interest Income | \$6,792 | \$7,010 | \$7,353 | \$7,483 | \$28,638 |
| Interest Expense | 3,131 | 3,437 | 3,627 | 3,869 | 14,064 |
| Net Interest Income | 3,661 | 3,573 | 3,726 | 3,614 | 14,574 |
| Provision for Loan Losses | 86 | 197 | 316 | 319 | \$ 918 |
| Non-interest Income | 762 | 855 | 796 | 872 | \$ 3,285 |
| Non-interest Expense | 2,226 | 2,131 | 2,178 | 2,237 | \$ 8,772 |
| Income Taxes | 739 | 723 | 680 | 493 | \$ 2,635 |
| Net Income | \$1,372 | \$1,377 | \$1,348 | \$1,437 | \$ 5,534 |
| Per common share: | | | | | |
| Basic | \$ 0.28 | \$ 0.28 | \$ 0.27 | \$ 0.29 | \$ 1.12 |
| Diluted | \$ 0.27 | \$ 0.28 | \$ 0.27 | \$ 0.29 | \$ 1.11 |
| Cash Dividends | \$0.067 | \$0.067 | \$0.067 | \$0.082 | \$ 0.283 |

CITIZENS HOLDING COMPANY
AND SUBSIDIARY

Philadelphia, Mississippi

Audited Consolidated Financial Statements

Years Ended December 31, 2001, 2000, and 1999

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Citizens Holding Company
Philadelphia, Mississippi

We have audited the accompanying consolidated balance sheets of Citizens Holding Company and Subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Citizens Holding Company and Subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Horne CPA Group

Jackson, Mississippi
January 18, 2002

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2001 and 2000

| | 2001 | 2000 |
|---|----------------|----------------|
| ASSETS | | |
| Cash and due from banks | \$ 12,713,482 | \$ 10,415,155 |
| Interest bearing deposits with other banks | 5,421,241 | 863,371 |
| Federal funds sold | 6,100,000 | 3,100,000 |
| Securities Available for Sale, at Fair Value (amortized cost of \$122,304,542 in 2001, and \$103,281,306 in 2000) | 122,567,180 | 103,533,174 |
| Loans, net of allowance for loan losses of \$3,375,000 in 2001 and \$3,325,000 in 2000 | 260,903,091 | 248,696,755 |
| Bank premises, furniture, fixtures and equipment, net | 5,143,535 | 4,362,206 |
| Real estate acquired by foreclosure | 340,657 | 133,325 |
| Accrued interest receivable | 4,121,922 | 4,726,113 |
| Cash value of life insurance | 2,809,410 | 3,019,454 |
| Intangible assets, net | 2,974,023 | 654,160 |
| Other assets | 4,118,333 | 3,296,696 |
| Total Assets | \$ 427,212,874 | \$ 382,800,409 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits | | |
| Non-interest bearing demand deposits | \$ 50,535,929 | \$ 36,961,489 |
| Interest bearing NOW and money market accounts | 91,656,150 | 68,499,167 |
| Interest bearing time deposits | 194,635,343 | 165,393,512 |
| Interest bearing savings deposits | 22,481,585 | 19,053,589 |
| Total deposits | 359,309,007 | 289,907,757 |
| Federal Home Loan Bank advances | 14,628,788 | 42,000,000 |
| Treasury tax and loan advances | - | 700,000 |
| Accrued interest payable | 1,415,513 | 1,597,445 |
| Directors deferred compensation payable | 1,079,191 | 916,256 |
| Other Liabilities | 2,386,608 | 2,849,999 |
| Total Liabilities | 378,819,107 | 337,971,457 |
| Commitments and Contingencies | | |
| Minority interest | 1,212,199 | 1,451,991 |
| Stockholders' Equity | | |
| Common stock, \$.20 par value, authorized 22,500,000 shares; 4,963,125 shares issued at 2001 and 3,353,750 in 2000 | 992,625 | 670,750 |
| Additional paid in capital | 3,031,252 | 3,353,127 |
| Accumulated other comprehensive income (loss), net of deferred tax asset (liability) of \$(89,295) in 2001 and \$(85,635) in 2000 | 157,074 | 160,834 |
| Retained earnings | 43,240,017 | 39,431,650 |
| Total Stockholders' Equity | 47,420,968 | 43,616,361 |
| Less cost of treasury stock - 67,500 shares at 2001 and 2000 | (239,400) | (239,400) |
| Total Stockholders' Equity | 47,181,568 | 43,376,961 |
| Total Liabilities and Stockholders' Equity | \$ 427,212,874 | \$ 382,800,409 |

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Statements of Income
Years Ended December 31, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|--|---------------|---------------|---------------|
| Interest Income | | | |
| Interest and fees on loans | \$ 22,770,622 | \$ 22,280,018 | \$ 19,607,524 |
| Interest on securities | | | |
| Taxable | 4,670,987 | 5,066,547 | 4,840,807 |
| Non-taxable | 1,117,874 | 1,073,142 | 799,867 |
| Other interest | 558,961 | 218,392 | 227,354 |
| Total Interest Income | 29,118,444 | 28,638,099 | 25,475,552 |
| Interest Expense | | | |
| Deposits | 12,189,194 | 11,751,889 | 10,087,438 |
| Other borrowed funds | 1,209,409 | 2,312,030 | 886,774 |
| Total Interest Expense | 13,398,603 | 14,063,919 | 10,974,212 |
| Net Interest Income | 15,719,841 | 14,574,180 | 14,501,340 |
| Provision for loan losses | (1,123,166) | (917,519) | (849,344) |
| Net Interest Income After Provision for Loan Losses | 14,596,675 | 13,656,661 | 13,651,996 |
| Non-Interest Income | | | |
| Service charges on deposit accounts | 2,810,403 | 2,470,018 | 2,371,809 |
| Other service charges and fees | 572,187 | 383,558 | 289,420 |
| Other income | 598,022 | 431,244 | 460,993 |
| Total Non-Interest Income | 3,980,612 | 3,284,820 | 3,122,222 |
| Non-Interest Expense | | | |
| Salaries and employee benefits | 5,597,105 | 4,901,589 | 4,656,363 |
| Occupancy expense | 741,912 | 654,037 | 552,348 |
| Equipment expense | 888,648 | 731,878 | 813,000 |
| Earnings applicable to minority interest | 166,196 | 190,393 | 196,475 |
| Other expense | 2,914,602 | 2,294,008 | 2,142,056 |
| Total Non-Interest Expense | 10,308,463 | 8,771,905 | 8,360,242 |
| Income before income taxes | 8,268,824 | 8,169,576 | 8,413,976 |
| Income tax expense | 2,557,926 | 2,635,211 | 2,792,620 |
| Net Income | \$ 5,710,898 | \$ 5,534,365 | \$ 5,621,356 |
| Net Income Per Share - Basic | \$ 1.15 | \$ 1.12 | \$ 1.13 |
| Net Income Per Share - Diluted | \$ 1.15 | \$ 1.11 | \$ 1.13 |
| Average Shares Outstanding: | | | |
| Basic | 4,963,125 | 4,963,125 | 4,963,125 |
| Diluted | 4,980,568 | 4,975,232 | 4,974,035 |

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
 Consolidated Statements of Comprehensive Income
 Years Ended December 31, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|---|--------------|--------------|--------------|
| Net Income | \$ 5,710,898 | \$ 5,534,365 | \$ 5,621,356 |
| Other Comprehensive Income (Loss), Net of Tax | | | |
| Unrealized holding gains (losses) | | | |
| during year | (3,760) | 1,748,548 | (2,471,959) |
| Less reclassification adjustment for gains | | | |
| (losses) included in net income | - | 45,694 | (54) |
| Total Other Comprehensive Income (Loss) | (3,760) | 1,702,854 | (2,471,905) |
| Comprehensive Income | \$ 5,707,138 | \$ 7,237,219 | \$ 3,149,451 |
| | | | |

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2001, 2000, and 1999

| | NUMBER OF SHARES ISSUED | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | RETAINED EARNINGS | TREASURY STOCK | TOTAL |
|---|-------------------------------|-----------------|----------------------------------|--|----------------------|-------------------|--------------|
| Balance, December 31, 1998 | 670,750 | \$670,750 | \$3,353,127 | \$ 929,885 | \$30,740,948 | \$(239,400) | \$35,455,310 |
| Net income | - | - | - | - | 5,621,356 | - | 5,621,356 |
| Dividends paid | - | - | - | - | (1,058,800) | - | (1,058,800) |
| 5 for 1 stock split | 2,683,000 | - | - | - | - | - | - |
| Other comprehensive income (loss), net | - | - | - | (2,471,905) | - | - | (2,471,905) |
| Balance, December 31, 1999 | 3,353,750 | 670,750 | 3,353,127 | (1,542,020) | 35,303,504 | (239,400) | 37,545,961 |
| Net income | - | - | - | - | 5,534,365 | - | 5,534,365 |
| Dividends paid | - | - | - | - | (1,406,219) | - | (1,406,219) |
| Other comprehensive income (loss), net | - | - | - | 1,702,854 | - | - | 1,702,854 |
| Balance, December 31, 2000 | 3,353,750 | 670,750 | 3,353,127 | 160,834 | 39,431,650 | (239,400) | 43,376,961 |
| Net income | - | - | - | - | 5,710,898 | - | 5,710,898 |
| Dividends paid | - | - | - | - | (1,902,531) | - | (1,902,531) |
| 3 for 2 stock split | 1,609,375 | 321,875 | (321,875) | - | - | - | - |
| Other comprehensive income (loss), net | - | - | - | (3,760) | - | - | (3,760) |
| Balance, December 31, 2001 | 4,963,125 | \$992,625 | \$3,031,252 | \$ 157,074 | \$43,240,017 | \$(239,400) | \$47,181,568 |

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2001, 2000, and 1999
1 of 2

| | 2001 | 2000 | 1999 |
|--|--------------|--------------|--------------|
| <hr/> | | | |
| Cash Flows from Operating Activities | | | |
| Net income | \$ 5,710,898 | \$ 5,534,365 | \$ 5,621,356 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation | 546,479 | 476,585 | 526,778 |
| Amortization of intangibles | 193,109 | 72,110 | 67,008 |
| Amortization of premiums and accretion of discounts on investment securities | (131,470) | (108,863) | (68,773) |
| Provision for loan losses | 1,123,166 | 917,519 | 849,344 |
| Investment securities (gains) losses | - | (45,694) | 54 |
| Deferred income tax benefit | 23,188 | (79,528) | (49,041) |
| Net earnings applicable to minority interest | (239,792) | 190,343 | 61,021 |
| (Increase) decrease in real estate acquired by foreclosure | (207,332) | 158,183 | (234,414) |
| (Increase) decrease in accrued interest receivable | 604,191 | (1,042,264) | 13,260 |
| Increase in cash value of life insurance | 210,044 | (191,189) | (311,904) |
| Increase in other assets | (577,722) | (302,250) | (322,880) |
| Increase (decrease) in income taxes payable | (224,387) | 30,577 | - |
| Increase (decrease) in accrued interest payable | (181,932) | 354,529 | (31,143) |
| Increase in directors deferred compensation | 162,935 | 104,126 | 93,262 |
| Increase (decrease) in other liabilities | (463,391) | (398,390) | 424,692 |
| | <hr/> | | |
| Net Cash Provided by Operating Activities | 6,547,984 | 5,670,159 | 6,638,620 |
| | <hr/> | | |
| Cash Flows from Investing Activities | | | |
| Proceeds from maturities of securities available for sale | 56,903,832 | 15,705,000 | 19,931,583 |
| Proceeds from sales of securities available for sale | - | 12,442,879 | 3,998,853 |
| Purchases of investment securities | (75,852,844) | (26,479,943) | (38,580,853) |
| Purchases of bank premises, furniture, fixtures and equipment | (1,327,808) | (427,815) | (504,102) |
| Decrease (increase) in interest bearing deposits with other banks | (4,557,870) | (681,329) | 881,202 |
| Net (increase) decrease in federal funds sold | (3,000,000) | (3,100,000) | 4,500,000 |
| Net increase in loans | (13,329,502) | (18,365,723) | (23,648,480) |
| Premium paid on branch acquisition | (2,512,972) | - | - |
| | <hr/> | | |
| Net Cash Used by Investing Activities | (43,677,164) | (20,906,931) | (33,421,797) |
| | <hr/> | | |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2001, 2000, and 1999
2 of 2

| | 2001 | 2000 | 1999 |
|--|-------------------|--------------------|--------------------|
| Cash Flows from Financing Activities | | | |
| Net increase (decrease) in federal funds purchased | \$ - | \$ (10,600,000) | \$ 600,000 |
| Net increase in deposits | 69,401,250 | 5,446,118 | 2,219,411 |
| Net decrease in Treasury tax and loan advances | (700,000) | - | - |
| Dividends paid to stockholders | (1,902,531) | (1,406,219) | (1,058,800) |
| Net increase in Federal Home Loan Bank advances | (27,371,212) | 18,900,000 | 23,100,000 |
| Net Cash Provided by Financing Activities | 39,427,507 | 12,339,899 | 24,860,611 |
| Net Increase (Decrease) in Cash and Due from Banks | 2,298,327 | (2,896,873) | (1,922,566) |
| Cash and due from banks, beginning of year | 10,415,155 | 13,312,028 | 15,234,594 |
| Cash and due from banks, end of year | \$ 12,713,482 | \$ 10,415,155 | \$ 13,312,028 |
| Supplemental Disclosures of Cash Flow Information | | | |
| Cash paid for Interest | \$ 13,580,534 | \$ 13,717,444 | \$ 11,005,355 |
| Income taxes | \$ 2,805,550 | \$ 2,744,590 | \$ 2,923,786 |
| Supplemental Schedule of Noncash Activities | | | |
| Unrealized gain (loss) on securities available for sale | \$ (46,476) | \$ 2,594,194 | \$ (3,806,280) |
| Increase (decrease) in deferred income tax liability on unrealized gain (loss) on securities | \$ 42,716 | \$ (891,340) | \$ 1,317,486 |
| Minority interest in unrealized gain (loss) on securities | \$ (1,194) | \$ 87,113 | \$ (16,889) |

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accounting policies of Citizens Holding Company and Subsidiary conform to generally accepted accounting principles and to general practices within the banking industry. The consolidated financial statements of Citizens Holding Company include the accounts of its approximately 97 percent owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (collectively referred to as "the Company"). All significant intercompany transactions have been eliminated in consolidation.

Nature of Business

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

Fair Value of Financial Instruments

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CONTINUED

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

A portion of the Company's loan portfolio consists of loans secured by residential property in the east central Mississippi area. The regional economy depends heavily on light industry, agriculture, and the gaming industry. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

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

Trust Assets

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

Cash and Due from Banks

Cash and due from banks consist of cash on hand and demand deposits with banks. Cash flows from loans originated by the Company, deposits, and federal funds purchased and sold are reported at net in the statements of cash flows. The Company is required to maintain average reserve balances with the Federal Reserve Bank based on a percentage of deposits. The average amount of those reserves for the year ended December 31, 2001 was \$227,000.

Securities Available for Sale

Securities available for sale are reported at fair value with unrealized gains and losses net of income taxes reported as other comprehensive income. 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. The Company classifies all of its portfolio, which consists of U.S. Treasury notes, U.S. Government and Agency securities, taxable state and municipal obligations, and mortgage-backed securities, as securities available for sale.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

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 other income. The amortization of premiums and accretion of discounts are recognized in interest income, using the interest method.

Loans and Allowances for Loan Losses

Loans are reported at the principal amount outstanding, net of unearned discounts and unearned finance charges. Unearned discounts on installment loans are recognized as income over the terms of the loans by a method which approximates the interest method. Unearned finance charges and interest on commercial loans are recognized based on the principal amount outstanding.

The allowance for loan losses is established through a provision for loan losses charged against net income. Loans declared to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance represents an amount which, in management's judgment, will be adequate to absorb estimated probable losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as the Company's past loan loss experience, composition of the loan portfolio, adverse situations that may affect the borrowers' ability to pay, the estimated value of any underlying collateral, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

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 on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Any unpaid interest previously accrued on nonaccrual loans is reversed from income to charges to the allowance for loan losses. Interest income, generally, is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

Bank Premises, Furniture, Fixtures, and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation computed on the straight-line basis for buildings and on an accelerated method for fixtures and equipment.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CONTINUED

Real Estate Acquired by Foreclosure

Real estate acquired by foreclosure consists of properties repossessed by the Company on foreclosed loans. These assets are stated at the lower of the outstanding loan amount (including accrued interest, if any) or fair value based on appraised 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 reappraisals or losses resulting from disposition of such property are expensed.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of nontaxable income such as interest on state and municipal securities) and deferred taxes on temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as described in SFAS No. 109, "Accounting for Income Taxes." As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Citizens Holding Company files a consolidated Federal income tax return. Citizen Bank remits to Citizens Holding Company amounts determined to be currently payable.

Stock Split

In October 2001, the Board of Directors of the Company declared a three-for-two stock split for all shareholders of record as of December 14, 2001, and increased the number of authorized shares of common stock to 22,500,000. Accordingly, all share and per share information in these financial statements and related footnotes has been restated to give effect to the three-for-two split.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. The weighted average number of shares outstanding was 4,963,125 for each of the years ended December 31, 2001, 2000 and 1999. Diluted net income per share is based on the weighted average number of shares of common stock outstanding for the periods, including dilutive potential common equivalent shares which reflect the dilutive effect of the Company's outstanding stock options. Dilutive common equivalent shares for the years ended December 31, 2001, 2000 and 1999 were 17,443, 12,126 and 10,910, respectively, all attributable to stock options.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CONTINUED

Off-Balance Sheet Financial Instruments

In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Intangible Assets

Intangible assets consists of approximately \$2,392,000 of primarily core deposit intangible related to the acquisition of two bank branches in July 2001, and approximately \$582,000 of goodwill related to several branch acquisitions in 1994 and 1995, and the acquisition of a mortgage company in 2000. The goodwill related to the pre-2001 acquisitions was being amortized over 15 years prior to the adoption of Statement of Financial Accounting Standard No. 142 (FAS No 142). The core deposit intangible resulting from the July 2001 branch acquisitions is being amortized in over an average life of approximately 10 years. Amortization expense for the years ended December 31, 2001 and 2000 was \$193,000 and \$72,000, respectively.

Investment - Insurance Company

The Company is accounting for its investment in New South Life Insurance Company ("New South"), a 20 percent owned affiliate, by the equity method of accounting. The Company's share of the net income of the affiliate is recognized as income in the Company's income statement and added to the investment account, and dividends received from New South would be treated as a reduction of the investment account. New South has not paid dividends.

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

The investment, which is included in other assets, totaled \$1,389,795 and \$1,238,205 at December 31, 2001 and 2000, respectively. Income from the investment for the years ended December 31, 2001, 2000, and 1999 included in other income totaled \$151,590, \$127,927, and \$214,835, respectively.

Branch Acquisitions

In July 2001, the Company acquired branch banks in Forest and Decatur, Mississippi from Union Planters National Bank. The Company acquired substantially all of the loans and assumed substantially all of the deposits of the two branches. In addition, the Company acquired certain real estate and related furniture and fixtures. The following is a recap of the assets and liabilities acquired in the branch acquisitions.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CONTINUED

| | | |
|-------------------------------|----|------------|
| Assets Acquired | | |
| Cash | \$ | 15,589,000 |
| Loans | | 11,685,000 |
| Accrued interest | | 106,000 |
| Real estate and equipment | | 622,000 |
| | | ----- |
| Total Assets Acquired | \$ | 28,002,000 |
| | | ===== |
| Liabilities Assumed | | |
| Deposits | \$ | 30,284,000 |
| Accrued interest | | 228,000 |
| Other | | 3,000 |
| | | ----- |
| Total Liabilities Assumed | \$ | 30,515,000 |
| | | ===== |
| Excess of Liabilities Assumed | \$ | 2,513,000 |
| | | ===== |

The excess of liabilities assumed over assets acquired is being accounted for primarily as a core deposit intangible asset.

Reclassifications

Certain reclassifications were made to the financial statement amounts from the prior year in order to facilitate comparability.

Recent Pronouncements

In June 1999, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. During 2000, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133-an amendment of FASB Statement No. 133," which concluded that it was appropriate to defer the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2001. The Company does not expect that the adoption of this statement will have a material effect on its financial position or results of operations.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CONTINUED

In September 2001, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125)." SFAS No. 140 replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 revises the standard for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. SFAS No. 140 is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2001. The adoption of this statement will not have a material effect on the Company's financial position or results of operations.

During 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142, "Goodwill and other Intangible Assets". SFAS No. 141 requires that all business combinations entered into after June 30, 2001 be accounted for under the purchase method. SFAS No. 142 requires that all intangible assets, including goodwill, that result from business combinations be periodically (at least annually) evaluated for impairment, with any resulting impairment loss being charged against earnings. Also, under SFAS No. 142, goodwill resulting from any business combination accounted for according to SFAS No. 141 will not be amortized, and the amortization of goodwill related to business combinations entered into prior to June 30, 2001 will be discontinued effective, for the Company, January 1, 2002. The Company will adopt the provisions of SFAS No. 141 immediately and the provisions of SFAS No. 142 related to discontinuation of goodwill amortization effective January 1, 2002.

Also during 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations", SFAS No. 143 requires estimated future asset retirement costs to be recognized as a liability, recorded at their fair value and capitalized as part of the asset and depreciated. Under the new pronouncement, the resulting retirement obligation liability is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate. The pronouncement is effective for years beginning after June 15, 2002 although early application is permitted. The Company will adopt the provisions of SFAS No. 143 effective January 1, 2003. Management does not expect the adoption of this pronouncement to have a material effect on the Company's financial statements.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" was also issued by the FASB during 2001 and is effective for years beginning after December 31, 2001. The new pronouncement sets forth requirements for testing and accounting for impairment or disposal of assets to be held and used, assets to be disposed of other than by sale, and assets to be sold. The Company will adopt SFAS No. 144 on January 1, 2002. Its adoption is not expected to have a material impact on the Company's financial statements.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. INVESTMENT SECURITIES

The amortized cost of investment securities and their market values at December 31, 2001 and 2000, were as follows:

| 2001 | | | | |
|------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| AVAILABLE FOR SALE | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | ESTIMATED FAIR VALUE |
| U.S. Treasury Direct | \$ 30,438,629 | \$ 575,151 | \$ - | \$ 31,013,780 |
| U.S. Agency | 10,397,698 | 290,959 | 12,131 | 10,676,526 |
| Mortgage-backed securities | 52,741,929 | 204,137 | 583,891 | 52,362,175 |
| State, county and municipals | 27,135,986 | 332,578 | 544,165 | 26,924,399 |
| Other securities | 1,590,300 | - | - | 1,590,300 |
| | \$ 122,304,542 | \$ 1,402,825 | \$ 1,140,187 | \$ 122,567,180 |
| ===== | | | | |
| 2000 | | | | |
| AVAILABLE FOR SALE | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | ESTIMATED FAIR VALUE |
| U.S. Treasury Direct | \$ 41,101,850 | \$ 271,274 | \$ 31,994 | \$ 41,341,130 |
| U.S. Agency | 20,068,853 | 149,635 | 71,523 | 20,146,965 |
| Mortgage-backed securities | 15,937,226 | 89,029 | 101,599 | 15,924,656 |
| State, county and municipals | 23,674,377 | 284,577 | 337,531 | 23,621,423 |
| Other securities | 2,499,000 | - | - | 2,499,000 |
| | \$ 103,281,306 | \$ 794,515 | \$ 542,647 | \$ 103,533,174 |
| ===== | | | | |

U.S. Government and municipal securities with an amortized cost of \$83,607,360 (market value \$84,485,282) at December 31, 2001, and \$87,690,044 (market value \$87,852,839) at December 31, 2000, were pledged to secure public and trust deposits and for other purposes as required by law.

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

| | 2001 | 2000 | 1999 |
|-----------------------|------|-----------|----------|
| Gross realized gains | \$ - | \$ 64,880 | \$ 3,713 |
| Gross realized losses | - | (19,186) | (3,767) |
| | \$ - | \$ 45,694 | \$ (54) |
| ===== | | | |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. CONTINUED

The amortized cost and fair values of the maturities of investment securities at December 31, 2001, were as follows:

| | AMORTIZED COST | FAIR VALUE |
|----------------------------|-------------------|----------------|
| Due in one year or less | \$ 14,340,627 | \$ 14,632,250 |
| Due in one to five years | 35,487,198 | 35,950,056 |
| Due from five to ten years | 21,475,278 | 21,632,626 |
| Due after ten years | 51,001,439 | 50,352,248 |
| | \$ 122,304,542 | \$ 122,567,180 |

The amortized cost and fair value of mortgage-backed securities are presented by contractual maturity in the preceding table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

NOTE 3. LOANS

The components of loans in the consolidated balance sheets were as follows:

| | 2001 CARRYING AMOUNT | 2000 CARRYING AMOUNT |
|--|----------------------------|----------------------------|
| Commercial, financial and agricultural | \$ 126,130,680 | \$ 122,411,768 |
| Real estate - construction | 6,035,511 | 5,310,937 |
| Real estate - mortgage | 80,548,297 | 74,823,572 |
| Consumer | 54,218,478 | 52,393,799 |
| | 266,932,966 | 254,940,076 |
| Unearned discount | (2,654,875) | (2,918,321) |
| Allowance for loan losses | (3,375,000) | (3,325,000) |
| | \$ 260,903,091 | \$ 248,696,755 |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. CONTINUED

Changes in the allowance for loan losses were summarized as follows:

| | 2001 | 2000 | 1999 |
|--|------------------|------------------|------------------|
| Balance at January 1 | \$ 3,325,000 | \$ 3,100,000 | \$ 2,900,000 |
| Recoveries on loans previously charged-off | 249,548 | 319,887 | 267,312 |
| Loans charged-off | (1,322,714) | (1,012,406) | (916,656) |
| Provision charged to expense | 1,123,166 | 917,519 | 849,344 |
| Balance at December 31 | \$ 3,375,000 | \$ 3,325,000 | \$ 3,100,000 |

Loans on nonaccrual status amounted to approximately \$418,813, \$589,788, and \$389,876 at December 31, 2001, 2000, and 1999, respectively. The effect of such loans was to reduce net income by approximately \$123,804, \$146,797 and \$109,970 in 2001, 2000, and 1999, respectively. No loans have been recognized as impaired in conformity with SFAS No. 114 for 2001 and 2000.

NOTE 4. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

Components of premises, furniture, fixtures and equipment included in the consolidated balance sheets at December 31, 2001 and 2000, were as follows:

| | 2001 | 2000 |
|--|------------------|------------------|
| Cost | | |
| Land | \$ 792,918 | \$ 792,918 |
| Buildings | 5,453,559 | 4,888,045 |
| Furniture and equipment | 5,395,987 | 4,633,693 |
| Total Cost | 11,642,464 | 10,314,656 |
| Less accumulated depreciation | 6,498,929 | 5,952,450 |
| Bank Premises, Furniture, Fixtures and Equipment, Net | \$ 5,143,535 | \$ 4,362,206 |

Depreciation expense was \$546,479, \$476,585, and \$526,778 for the years ended December 31, 2001, 2000, and 1999, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. INCOME TAXES

The consolidated provision for income taxes consisted of the following:

| | 2001 | | 2000 | | 1999 |
|----------------------|-----------------------|----|-----------------------|----|-----------------------|
| Currently payable | | | | | |
| Federal | \$ 2,356,645 | \$ | 2,491,383 | \$ | 2,590,386 |
| State | 224,469 | | 223,356 | | 251,275 |
| Deferred tax benefit | 2,581,114 (23,188) | | 2,714,739 (79,528) | | 2,841,661 (49,041) |
| Income Tax Expense | \$ 2,557,926 | \$ | 2,635,211 | \$ | 2,792,620 |

The differences between the federal statutory rate and the effective tax rates for 2001, 2000, and 1999, were as follows:

| | 2001 | | 2000 | | 1999 |
|-------------------------------------|--------------|----|-----------|----|-----------|
| Federal tax based on statutory rate | \$ 2,924,413 | \$ | 2,777,656 | \$ | 2,860,752 |
| State income tax | 157,142 | | 147,415 | | 165,841 |
| Change due to | | | | | |
| Tax-exempt investment interest | (321,389) | | (303,191) | | (301,076) |
| Minority interest | (56,507) | | 64,734 | | 66,801 |
| Other, net | (145,733) | | (51,403) | | 302 |
| Income Tax Expense | \$ 2,557,926 | \$ | 2,635,211 | \$ | 2,792,620 |

At December 31, 2001 and 2000, net deferred tax asset consisted of the following:

| | 2001 | | 2000 |
|---|------------|----|-----------|
| Allowance for loan losses | \$ 863,225 | \$ | 886,157 |
| Deferred compensation liability | 366,925 | | 311,527 |
| Other real estate | 11,735 | | 13,447 |
| Investment securities basis | (216,869) | | (209,303) |
| Unrealized gain or loss on available for sale securities | (89,295) | | (85,635) |
| | \$ 935,721 | \$ | 916,193 |

The net deferred tax assets are included in other assets. The Company has evaluated the need for a valuation allowance and, based on the weight of the available evidence, has determined that it is more likely than not that all deferred tax assets will be realized.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
 Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of \$100,000, was approximately \$73,246,704 and \$64,012,405 at December 31, 2001 and 2000, respectively.

The scheduled maturities of time deposits are as follows:

| YEAR ENDING DECEMBER 31, | AMOUNT |
|-----------------------------|----------------|
| 2002 | \$ 172,134,654 |
| 2003 | 17,005,927 |
| 2004 | 4,670,549 |
| 2005 | 798,419 |
| 2006 | 25,794 |
| | \$ 194,635,343 |
| | ===== |

NOTE 7. FEDERAL HOME LOAN BANK ADVANCES

Pursuant to collateral agreements with the Federal Home Loan Bank (FHLB), advances are collateralized by all the Company's stock in the FHLB and qualifying first mortgage loans. Advances at December 31, 2001 consist of \$4,628,788 in five year amortizing advances at an interest rate of 4.941 percent and \$10,000,000 in long-term advances due in 2008, callable in 5 years at rates ranging from 5.457 percent to 5.660 percent.

NOTE 8. INVESTMENT IN NEW SOUTH LIFE INSURANCE COMPANY

Condensed unaudited financial information of New South Life Insurance Company as of December 31, 2001 and 2000, and for the years ended December 31, 2001, 2000, and 1999, was as follows:

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. CONTINUED

| | 2001 (UNAUDITED) | 2000 (UNAUDITED) |
|---|---------------------|---------------------|
| Assets | | |
| Cash | \$ 417,856 | \$ 464,910 |
| Investments | 5,960,912 | 5,587,154 |
| Deferred acquisition costs | 537,939 | 636,205 |
| Other assets | 9,255 | 22,526 |
| Total Assets | \$ 6,925,962 | \$ 6,710,795 |
| Liabilities and Stockholders' Equity | | |
| Unearned premium reserves | \$ 1,296,453 | \$ 1,533,364 |
| Claims liability | 140,494 | 179,988 |
| Income taxes payable | 26,578 | 11,427 |
| Other liabilities | 67,687 | 34,098 |
| | 1,531,212 | 1,758,877 |
| | | |
| Common stock | 400,000 | 400,000 |
| Preferred stock | 150,000 | 250,000 |
| Paid-in capital | 700,000 | 600,000 |
| Retained earnings | 4,144,750 | 3,701,918 |
| | 5,394,750 | 4,951,918 |
| Total Liabilities and Stockholders' Equity | \$ 6,925,962 | \$ 6,710,795 |

| | 2001 (UNAUDITED) | 2000 (UNAUDITED) | 1999 (UNAUDITED) |
|---------------------------------------|---------------------|---------------------|---------------------|
| Income | | | |
| Insurance premiums earned | \$ 1,033,106 | \$ 1,143,990 | \$ 1,309,027 |
| Investment income | 358,562 | 323,738 | 307,820 |
| Total Income | 1,391,668 | 1,467,728 | 1,616,847 |
| Expenses | | | |
| Claims incurred | 241,588 | 296,919 | 249,230 |
| Commissions and service fees incurred | 488,822 | 541,464 | 617,445 |
| Other expenses | 114,949 | 83,412 | 91,292 |
| Income taxes | 103,476 | 106,457 | (74,742) |
| Total Expenses | 948,835 | 1,028,252 | 883,225 |
| | | | |
| Net Income | \$ 442,833 | \$ 439,476 | \$ 733,622 |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. SUMMARIZED FINANCIAL INFORMATION OF CITIZENS HOLDING COMPANY

Summarized financial information of Citizens Holding Company, parent company only, at December 31, 2001 and 2000, and for the years ended December 31, 2001, 2000, and 1999, was as follows:

Balance Sheets
December 31, 2001 and 2000

| | 2001 | 2000 |
|---|----------------------|----------------------|
| <hr/> | | |
| Assets | | |
| Cash | \$ 756,159 | \$ 361,191 |
| Securities available for sale, at fair value | 524,530 | 1,308,357 |
| Investment in bank subsidiary | 45,907,322 | 41,783,101 |
| Other assets | 11,897 | 18,901 |
| Total Assets | \$ 47,199,908 | \$ 43,471,550 |
| <hr/> | | |
| Liabilities | | |
| Income taxes payable - current | \$ - | \$ 81,747 |
| Other liabilities | 18,340 | 12,842 |
| | 18,340 | 94,589 |
| Stockholders' equity | 47,181,568 | 43,376,961 |
| Total Liabilities and Stockholders' Equity | \$ 47,199,908 | \$ 43,471,550 |

Income Statements
Years Ended December 31, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|---|---------------------|---------------------|---------------------|
| <hr/> | | | |
| Interest income | \$ 74,085 | \$ 86,053 | \$ 81,743 |
| Interest expense | - | - | - |
| Net Interest Income | 74,085 | 86,053 | 81,743 |
| <hr/> | | | |
| Other Income | | | |
| Other | 34,815 | 46,062 | 54,701 |
| Dividends from bank subsidiary | 1,986,540 | 1,406,219 | 1,058,800 |
| Equity in undistributed earnings of bank subsidiary | 3,721,802 | 4,069,658 | 4,533,999 |
| Total Other Income | 5,743,157 | 5,521,939 | 5,647,500 |
| <hr/> | | | |
| Other expense | 107,824 | 42,625 | 93,566 |
| Income before Income Taxes | 5,709,418 | 5,565,367 | 5,635,677 |
| Income tax expense (benefit) | (1,480) | 31,002 | 14,321 |
| Net Income | \$ 5,710,898 | \$ 5,534,365 | \$ 5,621,356 |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. CONTINUED

Statements of Cash Flows
Years Ended December 31, 2001, 2000, and 1999

| | 2001 | 2000 | 1999 |
|--|--------------|--------------|--------------|
| Cash Flows from Operating Activities | | | |
| Net income | \$ 5,710,898 | \$ 5,534,365 | \$ 5,621,356 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| (Increase) decrease in other assets | 7,004 | 15,874 | (13,540) |
| Increase (decrease) in income taxes payable | (81,747) | 21,002 | 10,321 |
| Increase (decrease) in other liabilities | 5,498 | 7,842 | (73,126) |
| Net Cash Provided by Operating Activities | 5,641,653 | 5,579,083 | 5,545,011 |
| Cash Flows from Investing Activities | | | |
| Change in investment securities available for sale | 783,827 | (55,041) | (2,416,615) |
| Increase in investment in bank subsidiary | (4,127,979) | (4,002,504) | (2,101,880) |
| Net Cash Used by Investing Activities | (3,344,152) | (4,057,545) | (4,518,495) |
| Cash Flows from Financing Activities | | | |
| Dividends paid to stockholders | (1,902,533) | (1,406,219) | (1,058,800) |
| Net Increase (Decrease) in Cash | 394,968 | 115,319 | (32,284) |
| Cash, beginning of year | 361,191 | 245,872 | 278,156 |
| Cash, end of year | \$ 756,159 | \$ 361,191 | \$ 245,872 |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. LEASES

The Company leases computer equipment and some branch facilities under operating leases. Rent expense was \$66,692, \$30,120, and \$48,000 for 2001, 2000, and 1999, respectively. At December 31, 2001, the future minimum lease commitments for leases which have terms in excess of one year are:

| YEAR ENDING DECEMBER 31, | AMOUNT |
|-----------------------------|------------|
| 2002 | \$ 66,420 |
| 2003 | 66,420 |
| 2004 | 66,420 |
| 2005 | 66,420 |
| 2006 | 55,350 |
| | ----- |
| | \$ 321,030 |
| | ===== |

NOTE 11. RELATED PARTY TRANSACTIONS

During the ordinary course of business, the Company has made loans to its directors and significant stockholders and their 10 percent or more owned businesses. As of December 31, 2001 and 2000, these loans totaled \$1,943,408 and \$1,196,032, respectively. During 2001, new loans to such related parties amounted to \$2,805,378, and repayments amounted to \$2,058,002.

The Company has received commissions related to credit life insurance for the years ended December 31, 2001, 2000, and 1999, totaling \$64,502, \$84,364, and \$107,331, respectively.

NOTE 12. BENEFIT PLANS

Profit Sharing Plan

The Company has a profit sharing and savings plan in effect for substantially all full-time employees. Under the profit sharing and savings plan, the Company automatically contributes an amount equal to 2.7 percent of each participant's base salary to the plan. A participant may elect to make contributions to the plan. The Company matches 100 percent of employee contributions up to a limit of 6 percent of each employee's salary.

The Company's contributions to the profit sharing plan and savings plan in 2001, 2000, and 1999, totaled \$288,283, \$261,153, and \$251,875, respectively.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. CONTINUED

Deferred Compensation Plan

The Company provides a deferred compensation plan covering its directors. Participants in the deferred compensation plan can defer a portion of their compensation for payment after retirement. Life insurance contracts have been purchased which may be used to fund payments under the plan. Net expenses related to this plan were \$81,456 in 2001, \$74,972 in 2000 and \$42,096 in 1999.

NOTE 13. CONCENTRATIONS OF CREDIT RISK

All of the Company's loans, commitments, and letters of credit have been granted to customers in the Company's market area. All such customers are depositors of the Company. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Letters of credit were granted primarily to commercial borrowers.

At times the Company has balances in due from bank accounts in excess of federal deposit insurance limits.

At December 31, 2001, 10 percent of the Company's deposits were from one entity.

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the normal course of business, various commitments and contingent liabilities are outstanding, such as guarantees and commitments to extend credit that are not reflected in the accompanying consolidated financial statements. At December 31, 2001 and 2000, a summary of such commitments and contingent liabilities is as follows:

| | 2001 | | 2000 |
|------------------------------|---------------|----|------------|
| Commitments to extend credit | \$ 12,155,738 | \$ | 13,745,594 |
| Letters of credit | 444,500 | | 452,825 |
| Total | \$ 12,600,238 | \$ | 14,198,419 |
| | | | |

Commitments to extend credit, and letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded in the consolidated balance sheets. Because these instruments have fixed maturity

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. CONTINUED

dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. The Company's experience has been that approximately 54 percent of loan commitments are drawn upon by customers. When letters of credit are utilized, a significant portion of such utilization is on an immediate payment basis. The Company has not been required to perform on any financial guarantees during the past two years. The Company has not incurred any losses on its commitments in 2001, 2000, or 1999.

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. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not have a material impact on the Company's financial position or results of operations.

NOTE 15. REGULATORY MATTERS

The Company is subject to the various regulatory capital requirements of the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve 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 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 (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2001, that the Company meets all capital adequacy requirements to which it is subject.

At its most recent notification from the Federal Deposit Insurance Corporation, the Company was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "adequately capitalized," the Company must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since the notification that management believes have changed the Company's prompt corrective action category.

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. CONTINUED

| | ACTUAL | | FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS | |
|---------------------------|---------------|--------|-------------------------------|-------|--|-------|
| | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT | RATIO |
| As of December 31, 2001 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Citizens Holding Company | \$ 48,562,374 | 18.40% | \$ 21,112,077 | 8.00% | \$ N/A | - % |
| Citizens Bank | 47,286,697 | 17.93 | 21,103,291 | 8.00 | 26,379,114 | 10.00 |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Citizens Holding Company | 45,262,671 | 17.15 | 10,556,038 | 4.00 | N/A | - |
| Citizens Bank | 43,988,350 | 16.68 | 10,551,646 | 4.00 | 15,827,468 | 6.00 |
| Tier I Capital | | | | | | |
| (to average Assets) | | | | | | |
| Citizens Holding Company | 45,262,671 | 10.51 | 17,224,286 | 4.00 | N/A | - |
| Citizens Bank | 43,988,350 | 10.33 | 17,028,839 | 4.00 | 21,286,049 | 5.00 |

| | ACTUAL | | FOR CAPITAL ADEQUACY PURPOSES | | TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS | |
|---------------------------|---------------|--------|-------------------------------|-------|--|-------|
| | AMOUNT | RATIO | AMOUNT | RATIO | AMOUNT | RATIO |
| As of December 31, 2000 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Citizens Holding Company | \$ 47,137,511 | 18.88% | \$ 19,974,622 | 8.00% | \$ N/A | - % |
| Citizens Bank | 45,541,318 | 18.25 | 19,958,747 | 8.00 | 24,948,434 | 10.00 |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | | | | | | |
| Citizens Holding Company | 44,013,958 | 17.63 | 9,987,311 | 4.00% | N/A | - |
| Citizens Bank | 42,420,215 | 17.00 | 9,979,374 | 4.00 | 14,969,060 | 6.00 |
| Tier I Capital | | | | | | |
| (to average Assets) | | | | | | |
| Citizens Holding Company | 44,013,958 | 11.61 | 15,165,218 | 4.00% | N/A | - |
| Citizens Bank | 42,420,215 | 11.24 | 15,092,240 | 4.00 | 18,865,300 | 5.00 |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

| | 2001 | | 2000 | |
|------------------------------------|--------------------|----------------|--------------------|----------------|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| Financial Assets | | | | |
| Cash and due from banks | \$ 12,713,482 | \$ 12,713,482 | \$ 10,415,155 | \$ 10,415,155 |
| Interest bearing | | | | |
| deposits with banks | 5,421,241 | 5,421,241 | 863,371 | 863,371 |
| Federal funds sold | 6,100,000 | 6,100,000 | 3,100,000 | 3,100,000 |
| Securities available for sale | 122,567,180 | 122,567,180 | 103,533,174 | 103,533,174 |
| Net loans | 260,903,091 | 262,408,345 | 248,696,755 | 247,046,384 |
| Financial Liabilities | | | | |
| Deposits | \$ 359,309,007 | \$ 360,147,682 | \$ 289,907,757 | \$ 290,268,948 |
| Federal Home Loan Bank advances | 14,628,788 | 14,628,788 | 42,000,000 | 42,000,000 |

Cash and due from banks, Interest bearing deposits with banks and Federal funds sold: The carrying amounts reported in the balance sheet for these instruments approximate those assets' fair values because of their immediate and shorter-term maturities.

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

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

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

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. CONTINUED

Federal funds purchased: The carrying amounts of Federal funds purchased approximate their fair values because of their short term maturities.

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

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

NOTE 17. STOCK OPTIONS

The Company has a directors' stock compensation plan and employees' long-term incentive plan. Under the directors' plan the Company may grant options up to 105,000 shares of common stock. The price of each option shall be equal to the market price determined as of the option grant date. Options granted are exercisable after 6 months and shall expire after 10 years. Under the employees' incentive plan the Company may grant options up to 7 percent of the total number of shares of common stock which may be issued and outstanding. Incentive options must be granted within 10 years of the adoption of the plan and shall expire no later than 10 years from the grant date. The exercise price shall be equal to the market price of the Company's stock on the date of grant.

The Company applies APB Opinion 25 in accounting for the compensation and long-term incentive plan. Accordingly, there was no compensation cost related to options granted during the years ending December 31, 2001 and 2000 and compensation cost related to options granted during the year ended December 31, 1999 was immaterial. Had compensation cost been determined on the basis of fair value pursuant to FASB Statement No. 123 using publicly traded share prices as a basis of determining fair values, net income and earnings per share would have been reduced as follows:

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. CONTINUED

| | | 2001 | | 2000 |
|----------------------------|----|-----------|----|-----------|
| <hr/> | | | | |
| Net Income | | | | |
| As reported | \$ | 5,710,898 | \$ | 5,534,365 |
| Proforma | \$ | 5,657,245 | \$ | 5,451,393 |
| | | | | |
| Basic Earnings Per Share | | | | |
| As reported | \$ | 1.15 | \$ | 1.67 |
| Proforma | \$ | 1.14 | \$ | 1.65 |
| | | | | |
| Diluted Earnings Per Share | | | | |
| As reported | \$ | 1.15 | \$ | 1.67 |
| Proforma | \$ | 1.14 | \$ | 1.64 |

The fair value of each option is estimated on the grant date using the Black-Scholes option pricing model. The following assumptions were made in estimating fair values in 2001 and 2000:

| ASSUMPTION | 2001 | 2000 |
|-------------------------|----------|----------|
| <hr/> | | |
| Dividend yield | 1.5% | 1.5 % |
| Risk-free interest rate | 6.25% | 6.25% |
| Expected life | 10 years | 10 years |
| Expected volatility | 16.05 | 22.80% |

CITIZENS HOLDING COMPANY AND SUBSIDIARY
Years Ended December 31, 2001, 2000, and 1999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. CONTINUED

Following is a summary of the status of the plans for the year ending December 31, 2001 and 2000:

| | Directors' Plan | | Employees' Plan | |
|--|------------------------|--|------------------------|--|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at January 1, 2000 | 27,300 | \$ 7.25 | 5,850 | \$ 7.20 |
| Granted | 13,500 | 11.00 | 16,350 | 10.33 |
| Exercised | - | - | - | - |
| Forfeited | - | - | - | - |
| Outstanding at December 31, 2000 | 40,800 | \$ 8.49 | 22,200 | 9.51 |
| Granted | 15,000 | 10.83 | 6,000 | 11.25 |
| Exercised | - | - | - | - |
| Forfeited | - | - | (1,500) | 10.33 |
| Outstanding at December 31, 2001 | 55,800 | \$ 9.12 | 26,700 | 9.85 |
| Options exercisable at: | | | | |
| December 31, 2000 | 40,800 | \$ 8.43 | 22,200 | \$ 9.52 |
| December 31, 2001 | 55,800 | \$ 9.12 | 26,700 | \$ 9.85 |
| Weighted average fair value of options granted during year ended: | | | | |
| December 31, 2000 | | \$ 4.34 | | \$ 4.08 |
| December 31, 2001 | | \$ 3.83 | | \$ 4.13 |

Financial Information:

Corporate Headquarters
521 Main Street
P. O. Box 209
Philadelphia, MS 39350
601-656-4692

Annual Stockholders Meeting

The Annual Stockholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 23, 2002 at 3:30 P.M. at the main office of The Citizens Bank, 521 Main Street, Philadelphia, Mississippi.

Stock Registrar and Transfer Agent
American Stock Transfer & Trust Company
40 Wall Street - 46th Floor
New York, NY 10005

Form 10-K

The Corporation's most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available to stockholders upon request to the Treasurer of the Citizens Holding Company.

Financial Contact

Robert T. Smith
Treasurer
P.O. Box 209
Philadelphia, MS 39350
601-656-4692

BANK OFFICERS

| | | |
|--|--|--|
| Steve Webb Chairman, President &CEO | Carolyn K. McKee Student Loan Officer | DEKALB BRANCH Steve Lockley Vice-President |
| Greg McKee Executive Vice President | Mark Majure Assistant Cashier | KOSCIUSKO BRANCH |
| Danny Hicks Sr. Vice President | Beth Branning Assistant Cashier | Charles Hudson Vice-President |
| Robert T. Smith Sr.Vice President &CFO | Pat Stokes Assistant Cashier | Joanne Sanders Assistant Cashier |
| Erdis Chaney Vice President &Cashier | Adriana Burt Assistant Cashier | SCOOBA BRANCH |
| Tim Lofton Vice President &CIO | Mitch Peden Assistant Cashier | Fran Knight Vice-President |
| Randy Cheatham Vice President | Brad Copeland Assistant Cashier | MERIDIAN BRANCH |
| Mike Guthrie Vice President | Sommer Vick Accounting Officer | Charles Young Vice-President |
| Joe Foster Vice President &Trust | CARTHAGE BRANCH | FOREST BRANCH |
| Murray Johnson Vice President | Mike Brooks President | Richard Latham Vice-President |
| Jackie Hester Vice President &Marketing | J. Michael Ellis Vice-President | Dymple Winstead Asst. Vice-President |
| Kaye Johnson Vice President | Billie Nell Dowdle Vice-President | DECATUR BRANCH |
| Terry Woods Vice President | Byron Hines Vice-President | Ken Jones Vice-President |
| Stanley Salter Vice President | Margaret Thompson Assistant Cashier | MORTGAGE LOAN DEPT. |
| Darrell Bates | Judy Kuntz Assistant Cashier | David Blair, Jr. |

Asst. Vice President
David Sharp
Asst. Vice President

Gayle Sharp
Assistant Vice President

Jean T. Fulton
Assistant Cashier

Lucille M. Myatt
Assistant to the President

Carol Wright
Assistant Cashier

SEBASTOPOL BRANCH

Linda Bennett
President

UNION BRANCH

Robert C. Palmer, Jr.
President

Karen Foster
Asst. Vice-President

CITIZENS HOLDING COMPANY
OFFICERS:

STEVE WEBB
CHAIRMAN, PRESIDENT & CEO

CAROLYN K. MCKEE
SECRETARY

ROBERT SMITH
TREASURER

DIRECTORS:

M. G. BOND
RETIRED MISSISSIPPI STATE SENATOR

KARL BRANTLEY
PLANT MANAGER
U.S. ELECTRIC MOTORS

DON L. KILGORE
ATTORNEY
THOMAS AND KILGORE P.A.

W. W. DUNGAN
PARTNER
MCDANIEL TIMBER COMPANY

DON FULTON
PRESIDENT AND GENERAL MANAGER
NEMANCO, INC.

DAVID A. KING
PROPRIETOR
PHILADELPHIA MOTOR COMPANY

HERBERT A. KING
CIVIL ENGINEER
KING ENGINEERING ASSOCIATES, INC.

GEORGE R. MARS
RETIRED PROPRIETOR
MARS DEPARTMENT STORE

WILLIAM M. MARS

ATTORNEY
MARS, MARS, MARS & CHALMERS P.A.

GREG MCKEE
EXECUTIVE VICE PRESIDENT
THE CITIZENS BANK

DAVID P. WEBB
ATTORNEY
PHELPS DUNBAR LLP

STEVE WEBB
CHAIRMAN, PRESIDENT & CEO
CITIZENS HOLDING COMPANY AND THE CITIZENS BANK OF PHILADELPHIA

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