

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission file number: 001-15375

CITIZENS HOLDING COMPANY

(Exact Name of Registrant as Specified in Its Charter)

MISSISSIPPI
(State or Other Jurisdiction of
Incorporation or Organization)

64-0666512
(IRS Employer
Identification Number)

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

39350
(Zip Code)

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

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller Reporting Company ☐

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

As of June 30, 2015, the aggregate market value of the registrant's common stock, \$.20 par value, held by non-affiliates of the registrant was \$95,814,537 based on the closing sale price as reported on the NASDAQ Global Market for such date (the exchange on which the registrant's common stock was listed on June 30, 2015).

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

<u>Class</u>	<u>Outstanding at March 8, 2016</u>
Common stock, \$.20 par value	4,875,079 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2015 are incorporated by reference into Part II of this Annual Report on Form 10-K.

Portions of Citizens Holding Company's Definitive Proxy Statement with respect to its 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

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

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

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

Except as otherwise indicated herein, the information presented in this Annual Report on Form 10-K is as of March 8, 2016.

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ITEM 1. BUSINESS.

BACKGROUND

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

The Bank was opened on February 8, 1908 as The First National Bank of Philadelphia. In 1917, the Bank surrendered its national charter and obtained a state charter, at which time the name of the Bank was changed to The Citizens Bank of Philadelphia, Mississippi. At December 31, 2015, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of \$973.5 million and total deposits of \$753.4 million. For more information regarding the assets, revenue and profits of the Company, refer to the Consolidated Financial Statements of the Company contained in Item 8, "Financial Statements and Supplementary Data."

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

OPERATIONS

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

Revenues from the Company's lending activities constitute the largest component of the Company's operating revenues. Revenue from loan interest and fees made up 51.0% of gross revenues in 2015, 50.8% in 2014 and 51.6% in 2013. Loan demand has improved but increased competition that results in lower loan yields along with an increased investment portfolio have caused this percentage to remain relatively flat over the last three years. Such lending activities include commercial, real estate, installment (direct and indirect) and credit card loans. The Company's primary lending area is East Central and South Mississippi, specifically Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Harrison, Jackson, Winston and Kemper counties and contiguous counties. In 2008, the Company entered the southern Mississippi market with the opening of a branch office in Hattiesburg, Mississippi, which is located in Lamar County. In 2009, the Company opened a Loan Production Office in Biloxi, Mississippi to serve the Mississippi Gulf Coast and in April 2014 converted this office to a full service branch and at the same time opened another branch in Biloxi. In 2011, the Company opened a branch in Flowood, Mississippi. On a very limited basis, the Company extends out-of-area credit only to borrowers who are considered to be low risk, as defined within the Bank's lending policy. The Company is not dependent upon any single customer or small group of customers, and it has no foreign operations.

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The Company's market area is mainly rural, with Hattiesburg, population 50,233, Biloxi, population 50,644, and Meridian, population 38,314, being the largest markets. Agriculture and some light industry comprise a significant portion of the economy of this area. The largest employer in the Company's service area is the Mississippi Band of Choctaw Indians. Its schools, manufacturing plants and main source of income, The Pearl River Resort (the "Resort"), generate a significant number of jobs in the area. The Resort and its related services employ approximately 2,400 people within the Company's market.

The Company has historically made, and intends to continue to make, most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction, and commercial real estate loans. At December 31, 2015, approximately 79.3% of the Company's loan portfolio has been attributed to real estate lending. Another 14.5% of the Company's loan portfolio is comprised of commercial, industrial and agricultural production loans. Consumer loans make up the remaining 6.2% of the total loan portfolio.

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

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

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

EXECUTIVE OFFICERS OF THE COMPANY

Greg L. McKee, 54, has been employed by the Bank since 1984. He was named President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank in January 2003. He has served as President of the Bank since January 2002 and served as Chief Operating Officer of the Bank from January 2002 until December 31, 2002. He has also been a member of the Board of Directors of both the Company and the Bank since 2001. Mr. McKee served as Executive Vice-President of the Bank from 2001 to 2002, Senior Vice-President of the Bank from 2000 to 2001, Vice-President of the Bank from 1992 to 2000, Assistant Vice-President of the Bank from 1989 to 1992, and Assistant Cashier of the Bank from 1984 to 1989.

Robert T. Smith, 64, has been employed by the Bank since 1986. He has served as Senior Vice-President and Chief Financial Officer of the Bank since January 2001. Prior to January 2001,

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

EMPLOYEES

The Company has no employees other than three Bank officers who provide services to the Company. These officers receive no compensation from the Company for their services to it as their compensation is paid by the Bank. At December 31, 2015, the Bank employed 236 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 Mississippi Department of Banking and Consumer Finance and the Federal Deposit Insurance Corporation ("FDIC"). The Company is a registered bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is subject to the supervision of the Federal Reserve Board ("FRB"). Certain legislation and regulations affecting the businesses of the Company and the Bank are discussed below.

General.

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

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, ("Dodd-Frank Act") affects financial institutions in numerous ways, including the creation of a new Financial Stability Oversight Council responsible for monitoring and managing systemic risk, granting additional authority to the FRB to regulate certain types of nonbank financial companies, granting new authority to the FDIC as liquidator and receiver, abolishing the Office of Thrift Supervision, changing the manner in which insurance deposit assessments are made, requiring the regulators to modify capital standards, establishing a new Bureau of Consumer Financial Protection to regulate compliance with consumer laws and regulations, cap interchange fees which banks charge merchants for debit card transactions, and imposing new requirements on mortgage lenders. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. It is anticipated that these new regulations will increase the Bank's compliance costs over time, and could have unforeseen consequences as the new legislation is implemented over time.

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Capital Standards.

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

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Since December 31, 1992, the federal banking agencies have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items of 4%. At December 31, 2015, the Company's ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items was 17.54%, and its ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items was 16.37%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 4%. The Company's leverage ratio at December 31, 2015 was 9.26%.

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

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

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

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

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

Management believes that, as of December 31, 2015, the Company and the Bank would meet all capital adequacy requirements under Basel III and the banking agencies' proposals on a fully phased-in basis if such requirements were currently effective. Management will continue to monitor these and any future proposals submitted by the Company's and Bank's regulators.

Prompt Corrective Action and Other Enforcement Mechanisms.

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

Safety and Soundness Standards.

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

Restrictions on Dividends and Other Distributions.

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

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The approval of the Mississippi Department of Banking and Consumer Finance is also required prior to the Bank paying dividends. The department's regulations limit dividends to earned surplus in excess of three times the Bank's capital stock. At December 31, 2015, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was approximately \$81.5 million, or 97.3% of the Bank's consolidated net assets.

FRB regulations limit the amount the Bank may loan to the Company unless those loans are collateralized by specific obligations. At December 31, 2015, the maximum amount available for transfer from the Bank in the form of loans was \$8.4 million, or 10% of the Bank's consolidated net assets. The Bank does not have any outstanding loans with the Company.

FDIC Insurance Assessments.

The FDIC maintains the Deposit Insurance Fund ("DIF") by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the DIF. The Dodd-Frank Act permanently raised the FDIC insurance coverage limit per depositor to \$250,000. In 2009, the FDIC increased the amount assessed from financial institutions by increasing its risk-based deposit insurance assessment scale. The assessment scale for 2010 ranged from seven basis points of assessable deposits for the strongest institutions to 77.5 basis points for the weakest. In 2009, the FDIC approved a rule that required insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. An insured institution's risk-based deposit insurance assessments was calculated on a quarterly basis and was paid from the amount the institution prepaid until June 30, 2013, at which point the remaining funds were returned to the insured institution. Pursuant to the requirements of the Dodd-Frank Act, the FDIC adopted a new assessment system in April 2011, which created a new rate grid. Under the new grid, base rates will range from 5 to 35 basis points annually, and fully adjusted rates will range from 2.5 to 45 basis points annually.

Other BHC Act Provisions.

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

The BHC Act also prohibits a bank holding company, with certain exceptions, from engaging in or from acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. The principal exception to this rule is for engaging in or acquiring shares of a company whose activities are found by the FRB to be so closely related to banking or managing banks as to be a proper incident thereto. In making such determinations, the FRB is required to consider whether the performance of such activities by a bank holding company

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or its subsidiaries can reasonably be expected to produce benefits to the public such as greater convenience, increased competition or gains in efficiency of resources that outweigh the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest or unsound banking practices.

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

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

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

Interstate Banking and Branching.

Prior to the enactment of the Dodd-Frank Act, banks were permitted under federal law to merge with other banks without any territorial restrictions, subject to meeting certain conditions. However, banks were subject to state laws regarding the ability to establish branch offices in different states. The Dodd-Frank Act effectively eliminated these restrictions, so that banks may establish branch offices throughout the United States without territorial restrictions.

Community Reinvestment Act.

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

The FDIC examined the Bank on March 3, 2014 for its performance under the CRA. The Bank was rated Satisfactory during this examination. No discriminatory practices or illegal discouragement of applications were found.

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Anti-Money Laundering Efforts.

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

Corporate Governance.

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

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

Impact of Monetary Policies.

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

COMPETITION

The banking business is highly competitive. The Company’s market consists principally of Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Harrison, Jackson, Winston and Kemper and contiguous counties in Mississippi. In 2008, the Company

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entered the southern Mississippi market with the opening of a branch office in Hattiesburg, Mississippi, which is located in Lamar County, and in 2009, opened a loan production office in Biloxi, Mississippi, which in April 2014, was converted into a full service branch. In 2011, the Company opened a branch in Flowood, Mississippi. In 2014, the Company established an additional branch in Biloxi to better serve the Gulf Coast. The Company competes with local, regional and national financial institutions in these counties and in surrounding counties in Mississippi in obtaining deposits, lending activities and providing many types of financial services. The Company also competes with larger regional banks for the business of companies located in the Company's market area.

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

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 Dodd-Frank Act and other recent changes in banking laws and regulations are expected to continue to further stimulate competition in the markets in which the Company operates, although it is not possible to predict the extent or timing of such increased competition.

Currently, there are approximately thirty different financial institutions in the Company's market competing for the same customer base. According to the FDIC's Summary of Deposits that is collected as of June 30 each year, the Company's market share in its market area was approximately 5.89% at June 30, 2015. The Company competes in its market for loan and deposit products, along with many of the other services required by today's banking customer, on the basis of availability, quality and pricing. The Company believes it is able to compete favorably in its markets, in terms of both the rates the Company offers and the level of service that the Company provides to its customers.

AVAILABILITY OF INFORMATION

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

ITEM 1A. RISK FACTORS.

In addition to the other information contained in or incorporated by reference into this report and the exhibits hereto, the following risk factors should be considered carefully in evaluating the Company's business. The risks disclosed below, either alone or in combination, could materially adversely affect the business, prospects, financial condition or results of operations of the Company and/or the Bank. Additional risks not presently known to the Company, or that the Company currently deems immaterial, may also adversely affect the Company's business, financial condition or results of operations.

Risks Related To The Company's Business and Industry

The Company is subject to interest rate risk.

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

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

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

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

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

The Company is subject to lending risk.

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

As of December 31, 2015, approximately 64.2% of the Company's loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

The allowance for possible loan losses may be insufficient.

Although the Company tries to maintain diversification within its loan portfolio in order to minimize the effect of economic conditions within a particular industry, management also maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on management's quarterly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment. Among other considerations in establishing the allowance for loan losses, management considers economic conditions reflected within industry segments, the unemployment rate in the Company's markets, loan segmentation and historical losses that are inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently

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involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses.

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

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

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

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

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

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The Company is subject to risk from adverse economic conditions.

The 2008 recession continues to adversely affect the Company's business although less than it had in previous years. The local economies that the Company and the Bank serves have kept pace with the improvement of the national and state economies. Although the economic conditions did not create new types of risks, the Company believes it is useful to highlight some of the key events to illustrate how events beyond its control can adversely affect the Company.

Some of the significant adverse economic conditions relevant to mortgage and related businesses include:

- residential housing values in the United States have stagnated or fallen, and in some highly-populated markets values have fallen significantly and have been slow to recover;
- the volume of residential housing transactions also has stagnated or fallen, and in some markets volume has continued to be low;
- investor demand for mortgage-backed securities fluctuated suddenly and sharply, and for some categories of mortgages disappeared almost entirely;
- except for "conforming loans," which are loan products conforming to standards of certain government sponsored entities, rates for some types of home mortgage products have risen sharply and some mortgage products, with new and more restrictive credit criteria, have become difficult for borrowers to obtain even at high interest rates, making it difficult or impossible for some borrowers to refinance an existing mortgage;
- many mortgage borrowers in recent years have obtained adjustable-rate products, and as many have adjusted to higher rates, and therefore higher payments, defaults on these types of loans have risen significantly;
- mortgage-related defaults, foreclosures, and personal bankruptcies have risen and it is likely that they will continue at historically high levels in the near future;
- the United States Congress and other governmental bodies have adopted the Dodd-Frank Act, which has provisions that increase the regulatory burdens and legal risks on mortgage lenders and servicers; and
- the Federal Reserve has kept short-term interest rates at very low levels, to help ameliorate the impacts of the disruptions in housing and the mortgage industry, which has kept the in the prime lending rates charged by most United States banks very low.

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

- pressures on the Company's/Bank's liquidity in the mortgage business as investor demand shrank and the securitization markets diminished or, for some products, disappeared;

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- significant reduction in the Company's ability to create gains on sale of mortgage loans it originated;
- significant reduction in mortgage origination volume and fees;
- significant increase in delinquencies in some loan products and markets which are related to mortgages and housing;
- significant increase in loan loss provision for loans secured by, or directly related to, mortgages and the housing industry;
- significant increase in costs of servicing mortgages due to increased credit remediation and loss mitigation activity, as well as increased collection and foreclosure activity;
- the possibility that continued low interest rates will compress the Company's net interest margin; and
- the possibility that, in 2016, adjustable rate home equity lines of credit ("HELOC") loans that are tied to low prime rates could be drawn more fully and could be pre-paid less often so that, in conjunction with falling housing values, the ratio of HELOC loan balances to current actual values may weaken which could, in turn, translate into higher loan losses and higher provisioning for future losses within the HELOC portfolio.

The economic recovery is fragile at this time, and if monetary and fiscal policy measures fail to have their intended effect, the economy could further weaken, which could increase business risks for the Company.

The capital and credit markets have been experiencing volatility and disruption during the last six years. Despite signs of improvement in the U.S. economy, the economic recovery continues to progress slowly and uncertainly. Consumer confidence remains low, unemployment has fallen to 4.9% for January 2016, and the housing market, although starting to rebound, remains an important downside risk, with prices expected to rise slightly through much of 2016. Given the concerns about the U.S. economy, employers have continued to approach hiring with caution, and as a result, unemployment is expected to be, at best, only slightly lower in 2016. Furthermore, record levels of monetary and fiscal stimulus since 2010 have failed to produce the expected level of economic growth. The Company does not assume that the difficult conditions in the economy and in the financial markets will improve significantly in the near future. The concern now exists that the future of the recovery is at risk because the economic backdrop is uncertain and unstable. Monetary and fiscal policy measures of the federal government may be insufficient to strengthen the recovery and restore stability to the financial markets. If efforts to revive the economy fail, the U.S. could face prolonged economic uncertainty, and perhaps a double dip recession or deflation, or both. A further weakened economy could affect the Company in a variety of substantial and unpredictable ways, including affecting its borrowers' ability to meet their repayment obligations. It is difficult to predict the extent to which these challenging economic conditions will persist, as well as the possibility that signs of a nascent recovery will instead shift to the potential for further decline. If the economy does weaken in the future, it is uncertain how the Company's business would be affected and whether the Company would be able successfully to mitigate any such effects on its business. Accordingly, these factors in the U.S. economy could have a material adverse effect on the Company's financial condition and results of operations.

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

In recent years, in response to the recession in 2008 and the following uneven recovery, the FRB has implemented a series of domestic monetary initiatives. Several of these have emphasized so-called quantitative easing strategies, the most recent of which ended in 2014. Other significant monetary strategies could be implemented in the future including, in particular, so-called tightening strategies. FRB strategies can, and often are intended to, affect the domestic money supply, inflation, interest rates, and the shape of the yield curve. Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, flatten the yield curve, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, steepen the yield curve, tighten the money supply, and restrain economic activity. All things being equal, the current transition from easing to possible tightening should tend to diminish or reverse downward pressure on rates, and to diminish or eventually end the stimulus effect that low rates tend to have on the economy. Many external factors may interfere with the effects of these plans or cause them to be changed unexpectedly. Such factors include significant economic trends or events as well as significant international monetary policies and events. An example of the former is the substantial drop in oil prices experienced in late 2014 and early 2015. Two examples of the latter are the rise in 2015 and 2016 (to date) in the value of the U.S. dollar relative to many other currencies, and decisions in the European Union in late 2015 and 2016 (to date) to pursue or enhance easing strategies. Risks associated with interest rates and the yield curve are discussed in this Item 1A under the caption “The Company is subject to interest rate risk.” Such strategies also can affect the United States, and world-wide financial systems in ways that may be difficult to predict.

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

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

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

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

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

The Company's ability to compete successfully depends on a number of factors, including, among other things:

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

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

The Company is subject to extensive government regulation and supervision.

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

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

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

Failure to comply with laws, regulations or policies could also result in sanctions by regulatory agencies and/or civil money penalties, which could have a material adverse effect on the Company's business, prospects, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, it cannot assure that such violations will be prevented. The information under the heading "Supervision and Regulation" in Item 1, "Business," and Note 16, "Regulatory Matters" to the Consolidated Financial Statements of the Company in Item 8, "Financial Statements and Supplementary Data," provides more information regarding the regulatory environment in which the Company and the Bank operate.

The Dodd-Frank Act and other legislative and regulatory initiatives relating to the financial services industry could materially affect the Company's business, prospects, results of operations, financial condition, liquidity or the market price of the Company's Common Stock.

The Dodd-Frank Act, as implemented by the regulations currently being promulgated by various federal regulatory agencies, along with other regulatory initiatives relating to the financial services industry, could materially affect the Company's business, prospects, results of operations, financial condition, liquidity or the market price of the Company's common stock. The Company is unable to completely evaluate these potential effects at this time. It is also possible that these measures could adversely affect the creditworthiness of counterparties, which could increase the Company's risk profile.

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The Federal Reserve's repeal of the prohibition against payment of interest on demand deposits (Regulation Q) may increase competition for such deposits and ultimately increase interest expense.

A major portion of the Bank's net income comes from its interest rate spread, which is the difference between the interest rates paid by the Bank on amounts used to fund assets and the interest rates and fees the Bank receives on its interest-earning assets. The Bank's interest-earning assets include outstanding loans extended to its customers and securities held in its investment portfolio. The Bank funds assets using deposits and other borrowings. The Bank's goal has been to maintain non-interest-bearing deposits in the range of 15% to 30% of total deposits, and the Bank currently maintains approximately 19.7% of deposits as non-interest bearing.

In 2011, the FRB repealed Regulation Q, which had prohibited the payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System. As a result, banks and thrifts are now permitted to offer interest-bearing demand deposit accounts to commercial customers, which were previously forbidden under Regulation Q. The repeal of Regulation Q may cause increased competition from other financial institutions for these deposits. If the Bank decides to pay interest on demand accounts, its interest expense would likely increase.

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

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

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

- *Tier 1 Common Equity.* For all supervised financial institutions, including the Company and the Bank, the ratio of Tier 1 common equity to risk-weighted assets ("Tier 1 Common Equity Capital ratio") must be at least 4.5%. To be "well capitalized" the Tier 1

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Common Equity Capital ratio must be at least 6.5%. If a capital conservation buffer of an additional 2.5% above the minimum 4.5% (or 7% overall) is not maintained, special restrictions would apply to capital distributions, such as dividends and stock repurchases, and on certain compensatory bonuses. Tier 1 common equity capital consists of core components of Tier 1 capital: common stock plus retained earnings net of goodwill, other intangible assets, and certain other required deduction items.

- *Tier 1 Capital Ratio.* For all banking organizations, including the Bank, the ratio of Tier 1 capital to risk-weighted assets must be at least 6%. The threshold is raised from the current 4%, and the risk-weighting method is changed as mentioned above. To be “well capitalized” the Tier 1 capital ratio must be at least 8%.
- *Total Capital Ratio.* For all supervised financial institutions, including the Company and the Bank, the ratio of total capital to risk-weighted assets must be at least 8%. Although this threshold is unchanged from current requirements, as mentioned above the method for risk-weighting assets has been changed. As a result of that method change, many banks could have experienced a reduction in this ratio if the change had been effective immediately when the rules were adopted.
- *Leverage Ratio – Base.* For all banking organizations, including the Bank, the leverage ratio must be at least 4%. To be “well capitalized” the leverage ratio must be at least 5%.
- *Leverage Ratio – Supplemental.* For the largest internationally active banking organizations, not including the Bank, a minimum supplementary leverage ratio must be maintained that takes into account certain off-balance sheet exposures.

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

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

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

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

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

Management regularly reviews and updates the Company’s internal control over financial reporting, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, has inherent limitations, including the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;

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

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

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

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

The Company's information systems may experience an interruption or breach in security.

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

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The Company continually encounters technological change.

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

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

For example, in 2014 and 2015 major retailers experienced data systems incursions reportedly resulting in the thefts of credit and debit card information, online account information, and other financial data of tens of millions of the retailers' customers. Retailer incursions affect cards issued and deposit accounts maintained by many banks, including the Bank. Although the Bank systems are not breached in retailer incursions, these events can cause the Bank to reissue a significant number of cards and take other costly steps to avoid significant theft loss to the Bank and its customers. Other possible points of incursion or disruption not within the Bank's control include internet service providers, electronic mail portal providers, social media portals, distant-server ("cloud") service providers, electronic data security providers, telecommunications companies, and smart phone manufacturers.

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

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

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the ability of the Company to conduct business. Such events

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could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause the Company to incur additional expenses. The occurrence of any such event could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company is subject to Accounting Estimate Risks.

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

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

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

Risks Associated With the Company's Common Stock

The Company's stock price can be volatile.

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

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- news reports relating to trends, concerns and other issues in the banking and financial services industry;
- perceptions in the marketplace regarding the Company or its competitors;
- new technology used, or services offered, by competitors;

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- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

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

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

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

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Biloxi Lemoyne	15309 Lemoyne Boulevard Biloxi, MS 39532 (228) 207-2343	Full Service; 24 Hour Teller
Biloxi Cedar Lake	1765 Poppo Ferry Road Biloxi, MS 39532 (228) 594-6913	Full Service
Flowood Branch	5419 Highway 25, Suite Q Flowood, MS 39232 (601) 992-7688	Full Service

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Information required in partial response to this Item 5 can be found under the heading "Market Price and Dividend Information" in the 2015 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

ITEM 6. SELECTED FINANCIAL DATA.

Information required in response to this Item 6 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2015, 2014 and 2013—Selected Financial Data" in the 2015 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

Information required in response to this Item 7 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2015, 2014 and 2013" in the 2015 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

Information required in response to this Item 7A can be found under the headings "Quantitative and Qualitative Disclosures about Market Risk" in the 2015 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information required in response to this Item 8 can be found under the heading "Consolidated Financial Statements" and "Quarterly Financial Trends" in the 2015 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The management of this Company, with the participation of its principal executive and financial officers, has evaluated the effectiveness of the Company's disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, the Company's principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2015 (the end of the period covered by this Annual Report on Form 10-K).

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

Information required in response to this item can be found under the headings "Management's Assessment of Internal Control over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" in the Company's Consolidated Financial Statements contained in its 2015 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There were no changes to the internal control over financial reporting in the fourth quarter of 2015 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required in partial response to this Item 10 can be found under the heading “Executive Officers of the Registrant” in Item 1, “Business,” and under the headings “Stock Ownership” and “Board of Directors” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 18, 2016, relating to its 2016 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Code of Ethics

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

ITEM 11. EXECUTIVE COMPENSATION.

Information required in response to this Item 11 can be found under the headings “Board of Directors,” “Executive Officers and Executive Compensation,” “Report of the Compensation Committee,” and “Compensation Committee Interlocks and Insider Participation” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 18, 2016, relating to its 2016 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

Information required in partial response to this Item 12 can be found under the heading “Stock Ownership” in the Company’s Definitive Proxy Statement to be filed with the SEC on or about March 18, 2016, relating to its 2016 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

[Table of Contents](#)**Equity Compensation Plan Information**

The following table provides information about the Company's equity compensation plans as of December 31, 2015.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
Equity compensation plans approved by security holders ⁽¹⁾	110,000	\$21.79	277,500
Equity compensation plans not approved by security holders	-0-	\$0.00	-0-
Total	110,000	\$21.79	277,500

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

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

Information required in response to this Item 13 can be found under the heading "Board of Directors" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 18, 2016, relating to its 2016 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information required in response to this Item 14 can be found under the heading "Proposal No. 4, Appointment of HORNE LLP as the Company's Independent Registered Public Accounting Firm" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 18, 2016, relating to its 2016 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements

1. Consolidated Financial Statements and Supplementary Information for years ended December 31, 2013, 2014 and 2015, which include the following:

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

2. Financial Statement Schedules

None.

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

- | | |
|---|--------|
| 3(i) Amended Articles of Incorporation of the Company | * |
| 3(ii) Amended and Restated Bylaws of the Company, as amended | ** |
| 10(a) Directors' Deferred Compensation Plan - Form of Agreement | *† |
| 10(b) Citizens Holding Company 1999 Directors' Stock Compensation Plan | *† |
| 10(c) Citizens Holding Company 1999 Employees' Long-Term Incentive Plan | *† |
| 10(d) Change in Control Agreement dated December 10, 2002 between the Company and Greg L. McKee | ***† |
| 10(e) Supplemental Executive Retirement Plan | ****† |
| 10(f) Citizens Holding Company 2013 Incentive Compensation Plan | *****† |
| 10(g) Form of Incentive Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan | *****† |
| 10(h) Form of Non-Qualified Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan | *****† |
| 10(i) Form of Restricted Share Award Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan | *****† |
| 10(j) Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Citizens Holding Company 2013 Incentive Compensation Plan | *****† |
| 13 2015 Annual Report to Shareholders | + |

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14	Code of Ethics	*****
21	Subsidiaries of Registrant	+
23	Consent of Independent Registered Public Accounting Firm	+
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	+
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	+
32.1	Section 1350 Certification of Chief Executive Officer	++
32.2	Section 1350 Certification of Chief Financial Officer	++
101	XBRL Exhibits	+
*	Filed as an exhibit to the Form 10 Registration Statement of the Company (File No. 000-25221) filed on December 30, 1998 and incorporated herein by reference, and also filed as an exhibit to Amendment No. 1 to Form 10 Registration Statement of the Company (File No. 000-25221) filed on June 21, 1999 and incorporated herein by reference.	
**	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 000-25221) filed on March 15, 2007 and incorporated herein by reference.	
***	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 000-25221) filed on March 31, 2003 and incorporated herein by reference.	
****	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (File No. 000-25221) filed on March 16, 2005 and incorporated herein by reference.	
*****	Filed as an exhibit to the Company's Definitive Proxy Statement relating to its 2013 Annual Meeting of Shareholders (File No. 000-15375) filed on March 21, 2013 and incorporated herein by reference.	
*****	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 000-15375) filed on April 25, 2013 and incorporated herein by reference.	
*****	Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (File No. 000-25221) filed on March 26, 2004, as updated on the Company's website, http://www.citizensholdingcompany.com and the Code of Ethics incorporated herein by reference.	
†	Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.	
+	Filed herewith.	
++	Furnished herewith.	

SIGNATURES

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

CITIZENS HOLDING COMPANY

Date: March 8, 2016

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

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

SIGNATURES	CAPACITIES	DATE
<u>/s/ Greg L. McKee</u> Greg L. McKee	Director, President and Chief Executive Officer (Principal Executive Officer)	March 8, 2016
<u>/s/ Robert T. Smith</u> Robert T. Smith	Treasurer, Chief Financial Officer (Principal Financial & Accounting Officer)	March 8, 2016
<u>/s/ Craig Dungan</u> Craig Dungan, MD	Director	March 8, 2016
<u>/s/ Don L. Fulton</u> Don L. Fulton	Director	March 8, 2016
<u>/s/ Donald L. Kilgore</u> Donald L. Kilgore	Director	March 8, 2016
<u>/s/ David A. King</u> David A. King	Director	March 8, 2016
<u>/s/ Herbert A. King</u> Herbert A. King	Chairman of the Board	March 8, 2016
<u>/s/ Adam Mars</u> Adam Mars	Director	March 8, 2016

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<u>/s/ David P. Webb</u> David P. Webb	Director	March 8, 2016
<u>/s/ A. T. Williams</u> A.T. Williams	Director	March 8, 2016
<u>/s/ Terrell E. Winstead</u> Terrell E. Winstead	Director	March 8, 2016

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
13	2015 Annual Report to Shareholders
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101	XBRL Exhibits

Stockholders,

As we reflect on 2015, I am pleased to report your company's accomplishments. We experienced growth in several financial areas, and I am proud of your company's performance in 2015

To summarize our financial results, earnings increased 1.9% from the previous year. This equates to basic per share earnings of \$1.56 compared to \$1.53 in 2014. The bank's total assets increased 5.7% to \$973.5 million. In 2015, our deposits increased by 8.2% and net loans increased 10.1% from 2014. Shareholder dividends increased 4.5%.

In addition to positive financial growth, we continued to invest in our employees, technology systems, and products to better serve you and our customers. We constantly strive to make our operations more efficient to maximize your investment. While we did not expand to new markets or branches in 2015, we continued to see strong growth in some of our newer markets.

Our organization is positioned well to take advantage of any market growth opportunities the board and leadership deem prudent.

In 2015, we were once again named a "Top 200 Community Bank" in the United States by *American Banker* magazine. This recognition is one I am always proud to accept. We began as a community bank in 1908, and we continue to embrace that important aspect of service today. While we have expanded to new communities over the last 108 years, we remain committed to corporately and individually serving our communities through charitable efforts, civic and community organizations, and a promise to know customers by name. As technology evolves and continuously changes the banking industry, we are steadfast in our mission to serve the people who make up our communities—you and your family.

In closing, I have often said that a company needs great stockholders, great customers, and great employees to be successful, and we are blessed with all three. It is an honor to serve all of you, and I look forward to a strong 2016.

CITIZENS HOLDING COMPANY

Philadelphia, Mississippi

Consolidated Financial Statements

As of December 31, 2015 and 2014 and for the
Years Ended December 31, 2015, 2014 and 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of condition of Citizens Holding Company and subsidiary (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. We have also audited the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

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

CONSTRUCTION | FINANCIAL INSTITUTIONS | FRANCHISE | GOVERNMENT SERVICES
HEALTH CARE | PUBLIC & MIDDLE MARKET | WEALTH ADVISORS

To the Board of Directors and Stockholders
Citizens Holding Company

Page Two

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

A handwritten signature in dark ink, appearing to read "Hame LLP". The signature is written in a cursive, flowing style.

Ridgeland, Mississippi
March 8, 2016

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management, under the direction of the chief executive officer and chief financial officer, assessed the Company's internal control over financial reporting as of December 31, 2015 based on the criteria for effective internal control over financial reporting established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, management believes that, as of December 31, 2015, the Company maintained effective internal control over financial reporting.

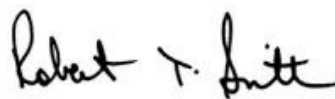
The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (2) provide reasonable assurance that transactions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

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

HORNE LLP, the Company's Independent Registered Public Accounting Firm, has audited the Company's internal control over financial reporting as of December 31, 2015, as stated in their report, beginning on page 1, which expresses an unqualified opinion on the Company's internal control over financial reporting as of December 31, 2015.



Greg L. McKee
President and Chief Executive Officer



Robert T. Smith
Treasurer and Chief Financial Officer

March 8, 2016

CITIZENS HOLDING COMPANY
Consolidated Statements of Condition
December 31, 2015 and 2014

ASSETS	2015	2014
Cash and due from banks	\$ 14,947,690	\$ 22,405,730
Interest bearing deposits with other banks	42,267,777	61,481,223
Securities available for sale, at fair value (amortized cost of \$267,308,756 in 2015 and \$178,392,462 in 2014)	267,264,403	179,745,130
Securities held to maturity, at book value (fair value of \$169,045,835 in 2015 and \$216,745,438 in 2014)	161,043,404	206,817,169
Loans, net of allowance for loan losses of \$6,473,703 in 2015 and \$6,542,326 in 2014	423,108,391	384,417,508
Bank premises, furniture, fixtures and equipment, net	18,655,691	19,240,230
Other real estate owned, net	3,572,744	4,051,561
Accrued interest receivable	3,928,106	3,869,937
Cash surrender value of life insurance	23,133,644	22,347,601
Deferred tax assets	9,165,417	10,128,741
Other assets	6,417,275	6,555,851
Total assets	<u>\$973,504,542</u>	<u>\$921,060,681</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing deposits	\$148,724,257	\$145,729,932
Interest bearing deposits	604,680,531	550,363,962
Total deposits	753,404,788	696,093,894
Securities sold under agreement to repurchase	104,298,182	114,426,770
Federal Home Loan Bank advances	20,000,000	20,000,000
Accrued interest payable	179,995	190,717
Deferred compensation payable	7,718,624	7,209,694
Other liabilities	1,477,617	1,281,820
Total liabilities	<u>887,079,206</u>	<u>839,202,895</u>
Stockholders' equity		
Common stock, \$.20 par value, authorized 22,500,000 shares; 4,875,079 shares issued and outstanding at December 31, 2015 and 4,877,614 shares issued and outstanding at December 31, 2014	975,016	975,482
Additional paid-in capital	3,617,279	3,861,717
Accumulated other comprehensive loss, net of tax benefit of (\$4,233,473) in 2015 and (\$5,283,048) in 2014	(7,116,319)	(8,880,620)
Retained earnings	88,949,360	85,901,207
Total stockholders' equity	<u>86,425,336</u>	<u>81,857,786</u>
Total liabilities and stockholders' equity	<u>\$973,504,542</u>	<u>\$921,060,681</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Income
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Interest income			
Interest and fees on loans	\$20,040,315	\$20,081,852	\$20,610,580
Interest on securities			
Taxable	8,026,808	8,226,508	7,949,437
Non-taxable	2,802,915	3,022,992	3,504,084
Other interest	94,721	49,398	51,994
Total interest income	30,964,759	31,380,750	32,116,095
Interest expense			
Deposits	1,843,717	1,754,909	1,944,997
Other borrowed funds	1,233,162	1,263,386	2,135,460
Total interest expense	3,076,879	3,018,295	4,080,457
Net interest income	27,887,880	28,362,455	28,035,638
Provision for loan losses	(556,687)	(923,397)	(2,204,366)
Net interest income after provision for loan losses	27,331,193	27,439,058	25,831,272
Non-interest income			
Service charges on deposit accounts	3,866,537	3,932,691	3,884,997
Other service charges and fees	2,284,262	2,096,836	1,953,263
Net gains on sales of securities	17,503	14,542	423,388
Other income	2,159,407	2,118,435	1,554,454
Total non-interest income	8,327,709	8,162,504	7,816,102
Non-interest expense			
Salaries and employee benefits	13,295,211	13,095,023	13,110,603
Occupancy expense	2,160,198	2,129,193	2,016,965
Equipment expense	3,065,042	3,065,842	2,379,167
Other expense	7,070,516	8,033,654	7,220,876
Total non-interest expense	25,590,967	26,323,712	24,727,611
Income before income taxes	10,067,935	9,277,850	8,919,763
Income tax expense	2,479,034	1,828,091	1,769,903
Net income	\$ 7,588,901	\$ 7,449,759	\$ 7,149,860
Net income per share – basic	\$ 1.56	\$ 1.53	\$ 1.47
Net income per share – diluted	\$ 1.56	\$ 1.53	\$ 1.47
Average shares outstanding			
Basic	4,872,064	4,870,114	4,868,263
Diluted	4,874,141	4,870,749	4,869,767

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Net income	\$ 7,588,901	\$ 7,449,759	\$ 7,149,860
Other comprehensive income (loss)			
Unrealized holding (losses) gains on available-for-sale securities	(1,379,518)	35,256,397	(40,399,686)
Income tax effect	514,561	(13,150,636)	15,069,083
Net unrealized (losses) gains	(864,957)	22,105,761	(25,330,603)
Unrealized losses on securities transferred from available-for-sale to held-to-maturity	—	(17,061,438)	—
Amortization of net unrealized losses transferred during the period	4,210,897	1,545,103	—
Income tax effect	(1,570,664)	5,787,593	—
	2,640,233	(9,728,742)	—
Reclassification adjustment for gains included in net income	(17,503)	(14,542)	(423,388)
Income tax effect	6,528	5,424	157,924
Net gains included in net income	(10,975)	(9,118)	(265,464)
Total other comprehensive income (loss)	1,764,301	12,367,901	(25,596,067)
Comprehensive income (loss)	\$ 9,353,202	\$ 19,817,660	\$(18,446,207)

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015, 2014, and 2013

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2012	4,861,411	972,282	\$3,620,967	\$ 4,347,546	\$79,928,035	\$ 88,868,830
Net income	—	—	—	—	7,149,860	7,149,860
Dividends paid (\$0.88 per share)	—	—	—	—	(4,285,371)	(4,285,371)
Options exercised	8,703	1,700	127,250	—	—	128,950
Other comprehensive income, net	—	—	—	(25,596,067)	—	(25,596,067)
Balance, December 31, 2013	4,870,114	973,982	3,748,217	(21,248,521)	82,792,524	66,266,202
Net income	—	—	—	—	7,449,759	7,449,759
Dividends paid (\$0.89 per share)	—	—	—	—	(4,341,076)	(4,341,076)
Restricted Stock Granted	7,500	1,500	(1,500)	—	—	—
Stock compensation Expense	—	—	115,000	—	—	115,000
Other comprehensive loss, net	—	—	—	12,367,901	—	12,367,901
Balance, December 31, 2014	4,877,614	975,482	3,861,717	(8,880,620)	85,901,207	81,857,786
Net income	—	—	—	—	7,588,901	7,588,901
Dividends paid (\$0.93 per share)	—	—	—	—	(4,540,748)	(4,540,748)
Stock Repurchased	(19,035)	(3,807)	(386,398)	—	—	(390,205)
Options Exercised	1,500	341	26,659	—	—	27,000
Excess Tax Benefits	—	—	1,001	—	—	1,001
Restricted stock granted	15,000	3,000	(3,000)	—	—	—
Stock compensation expense	—	—	117,300	—	—	117,300
Other comprehensive income, net	—	—	—	1,764,301	—	1,764,301
Balance, December 31, 2015	<u>4,875,079</u>	<u>\$975,016</u>	<u>3,617,279</u>	<u>(7,116,319)</u>	<u>88,949,360</u>	<u>\$ 86,425,336</u>

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Cash flows from operating activities			
Net income	\$ 7,588,901	\$ 7,449,759	\$ 7,149,860
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,040,207	1,190,393	1,140,753
Amortization of premiums and accretion of discounts on investment securities, net	1,208,954	405,017	717,749
Stock compensation expense	117,300	115,000	—
Provision for loan losses	556,687	923,397	2,204,366
Gain on sale of securities	(17,503)	(14,542)	(423,388)
Federal Home Loan Bank stock dividends	(4,500)	(8,400)	(11,400)
Deferred income tax (benefit) loss	(86,251)	307,920	(850,100)
Excess tax benefit on stock options	—	—	(14,566)
Net writedown on other real estate owned	156,053	824,059	276,400
(Increase) decrease in accrued interest receivable	(58,124)	262,116	533,815
Increase in cash surrender value life insurance	(786,043)	(784,425)	(1,017,032)
Gain on BOLI death benefits	—	(623,774)	—
Decrease in accrued interest payable	(10,722)	(8,796)	(121,959)
Increase in deferred compensation liability	508,930	489,746	802,286
Net change in other operating assets and liabilities	188,128	(837,072)	824,044
Net cash provided by operating activities	10,402,017	9,690,398	11,210,828
Cash flows from investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	41,493,768	12,944,631	81,916,607
Proceeds from calls of securities held-to-maturity	47,853,733	—	—
Proceeds from sales of securities available-for-sale	5,758,795	18,004,518	41,974,017
Purchases of investment securities available-for-sale	(135,229,379)	—	(142,276,646)
Purchases of bank premises, furniture, fixtures and equipment	(455,668)	(1,807,469)	(338,615)
Proceeds from sale of other real estate owned	1,192,328	1,749,721	2,091,610
Net decrease (increase) in interest bearing deposits with other banks	19,213,446	(60,797,123)	15,544,647
Proceeds from redemption of Federal Home Loan Bank Stock	150,700	1,292,600	1,052,000
Purchases of Federal Home Loan Bank Stock	—	—	(438,600)
Proceeds from death benefits of bank owned life insurance	—	1,269,560	—
Net increase in loans	(40,117,134)	(4,110,312)	(25,809,560)
Net cash used by investing activities	(60,139,411)	(31,453,874)	(26,284,540)

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2015, 2014, and 2013
2 of 2

	2015	2014	2013
Cash flows from financing activities			
Net increase in deposits	\$ 57,310,894	\$ 41,464,098	\$ 12,080,458
Net (decrease) increase in federal funds purchased	—	(27,500,000)	27,500,000
Net change in securities sold under agreement to repurchase	(10,128,588)	32,005,989	9,114,016
Proceeds from exercise of stock options	27,000	—	128,950
Stock repurchase	(390,205)	—	—
Excess tax benefit on stock option exercises	1,001	—	14,566
Dividends paid to stockholders	(4,540,748)	(4,341,076)	(4,285,371)
Federal Home Loan Bank advance proceeds	—	—	10,000,000
Federal Home Loan Bank advance payments	—	(13,500,000)	(45,000,000)
Net cash provided by financing activities	<u>42,279,354</u>	<u>28,129,011</u>	<u>9,552,619</u>
Net (decrease) increase in cash and due from banks	(7,458,040)	6,365,535	(5,521,093)
Cash and due from banks, beginning of year	<u>22,405,730</u>	<u>16,040,195</u>	<u>21,561,288</u>
Cash and due from banks, end of year	<u>\$ 14,947,690</u>	<u>\$ 22,405,730</u>	<u>\$ 16,040,195</u>
Supplemental disclosures of cash flow information			
Cash paid for Interest	<u>\$ 3,087,601</u>	<u>\$ 3,027,090</u>	<u>\$ 4,202,416</u>
Income taxes	<u>\$ 2,301,698</u>	<u>\$ 2,460,014</u>	<u>\$ 2,357,215</u>
Noncash disclosures			
Real estate acquired by foreclosure	<u>\$ 869,564</u>	<u>\$ 2,874,173</u>	<u>\$ 1,436,923</u>
Transfers from available-for-sale to held-to-maturity	<u>\$ —</u>	<u>\$222,322,423</u>	<u>\$ —</u>

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

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

Nature of Business

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

Estimates

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

For the purpose of reporting cash flows, cash and due from banks includes cash on hand and demand deposits. Cash flows from loans originated by the Company, deposits, and federal funds purchased and sold are reported net in the statement of cash flows. The Company is required to maintain average reserve balances with the Federal Reserve Bank based on a percentage of deposits. The Company was not required to maintain an average reserve balance by the Federal Reserve Bank at December 31, 2015 and 2014.

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

Investment Securities

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

Securities Available-for-Sale

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

Securities Held to Maturity

Securities that are held-to-maturity ("HTM") are those securities that the Company has the positive intent and ability to hold until maturity. These securities cannot be sold in response to the risk factors discussed above for available for sale securities. These securities are reported at book value. The securities currently classified as held to maturity were transferred from AFS in April 2014. Any unrealized loss at that time is being amortized over the remaining life of the securities at the same rate as the discount is being accreted on the new balance, resulting in a zero income effect.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

The Company periodically reviews its securities for impairment based upon a number of factors, including but not limited to, length of time and extent to which the fair value has been less than cost, the likelihood of the security's ability to recover any decline in its fair value, financial condition of the underlying issuer, ability of the issuer to meet contractual obligations and ability to retain the security for a period of time sufficient to allow for recovery in fair value. Impairments on securities are recognized when management, based on its analysis, deems the impairment to be other-than-temporary. Disclosures about unrealized losses in the Company's securities portfolio that have not been recognized as other-than-temporary impairments are provided in Note 3.

Loans and Allowance for Loan Losses

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Bank Premises, Furniture, Fixtures and Equipment

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

Other Real Estate Owned

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

Cash Surrender Value of Life Insurance

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

Intangible Assets

Intangible assets include core deposits purchased and goodwill. Core deposit intangibles are amortized on a straight-line basis over their estimated economic lives ranging from 5 to 10 years. At December 31, 2015, all core deposit intangibles had been fully amortized. Goodwill and other intangible assets with indefinite lives are not amortized, but are tested at least annually for impairment. Fair values are determined based on market valuation multiples for the Company and comparable businesses based on the assets and cash flow of the Bank, the Company's only reportable segment. If impairment has occurred, the goodwill or other intangible asset is reduced to its estimated fair value through a charge to expense.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Trust Assets

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

Income Taxes

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

Comprehensive Income (Loss)

Comprehensive income includes net earnings reported in the consolidated statements of income, changes in unrealized gain (loss) on securities available-for-sale and changes in unrealized losses on securities transferred from AFS to HTM reported as a component of stockholders' equity. Unrealized gain (loss) on securities available-for-sale and changes in unrealized losses on securities transferred from AFS to HTM, net of related income taxes, are the only components of accumulated other comprehensive income for the Company.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Net Income Per Share

Net income per share-basic is computed by dividing net income by the weighted average number of common shares outstanding during the year. Net income per share-diluted is based on the weighted average number of shares of common stock outstanding for the periods, including the dilutive effect of the Company's outstanding stock options and restricted stock grants. The effect of the dilutive shares for the years 2015, 2014 and 2013 is illustrated in the following table.

	2015	2014	2013
Basic weighted average shares outstanding	4,872,064	4,870,114	4,868,263
Dilutive effect of stock options	2,077	635	1,504
Dilutive weighted average shares outstanding	4,874,141	4,870,749	4,869,767
Net income	\$7,588,901	\$7,449,759	\$7,149,860
Net income per share-basic	\$ 1.56	\$ 1.53	\$ 1.47
Net income per share-diluted	\$ 1.56	\$ 1.53	\$ 1.47

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$793,282, \$769,081 and \$621,216 for the years ended December 31, 2015, 2014 and 2013, respectively.

Securities Sold Under Agreements to Repurchase

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

Reclassifications

Certain information for 2013 and 2014 has been reclassified to conform to the financial presentation for 2015. Such reclassifications had no effect on net income or stockholders' equity.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Stock-Based Compensation

At December 31, 2015, the Company had outstanding grants under three stock-based compensation plans, which are the 1999 Employees' Long-Term Incentive Plan, which expired in 2009, the 1999 Directors' Stock Compensation Plan and the 2013 Incentive Compensation Plan. Compensation expense for the option grants is determined based on the estimated fair value of the stock options on the applicable grant date. Compensation expense for grants of restricted stock is accounted for using the fair market value of the Company's stock on the date the restricted shares are awarded. Further, compensation expense is based on an estimate of the number of grants expected to vest and is recognized over the grants' implied vesting period of 6 months and 1 day. Expense associated with the Company's stock based compensation is included in salaries and benefits on the Consolidated Statements of Income. The Company recognizes compensation expense for all share-based payments to employees in accordance with ASC 718, "Compensation – Stock Compensation." See Note 18 for further details regarding the Company's stock-based compensation.

Subsequent Events

The Company has evaluated, for consideration of recognition or disclosure, subsequent events that have occurred through the date of issuance of its financial statements, and has determined that no significant events occurred after December 31, 2015 but prior to the issuance of these financial statements that would have a material impact on its Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

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

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

FASB has issued *Accounting Standards Update (ASU) No. 2015-16, Business Combinations (Topic 805)—Simplifying the Accounting for Measurement-Period Adjustments*, which finalizes *Proposed ASU No. 2015-260*, and simplifies the accounting for adjustments made to provisional amounts recognized in a business combination. First, *ASU No. 2015-16* requires that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer also should record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Second, for public business entities, the amendments in this *ASU* are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Moreover, the amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this *ASU*, with earlier application permitted for financial statements that have not been issued. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Investment Securities

The amortized cost and estimated fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income at December 31, 2015 and 2014 were as follows:

<u>2015</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities available-for-sale Obligations of U.S. Government agencies	\$ 83,826,411	\$ 1,100	\$1,577,145	\$ 82,250,366
Mortgage-backed securities	92,602,875	467,693	1,348,603	91,721,965
State, County, Municipals	87,948,336	2,609,469	181,442	90,376,363
Other investments	2,931,134	—	15,425	2,915,709
Total	<u>\$267,308,756</u>	<u>\$3,078,262</u>	<u>\$3,122,615</u>	<u>\$267,264,403</u>
<u>2014</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities available-for-sale Obligations of U.S. Government agencies	\$ 77,996,980	\$ —	\$2,035,905	\$ 75,961,075
Mortgage-backed securities	12,501,990	824,844	—	13,326,834
State, County, Municipals	84,896,091	3,048,489	360,082	87,584,498
Other investments	2,997,401	—	124,678	2,872,723
Total	<u>\$178,392,462</u>	<u>\$3,873,333</u>	<u>\$2,520,665</u>	<u>\$179,745,130</u>

During the second quarter of 2014, the Company transferred securities with an amortized cost of \$222,322,423 from the AFS classification to HTM. This transfer was completed after consideration of the Company's ability and intent to hold these securities to maturity.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

The fair value of the securities transferred as of the date of transfer was \$205,260,985 with a net unrealized loss of \$17,061,438. In accordance with ASC 320-10-35-16, the discount on each security that resulted from this transfer is amortized over the remaining lives of the individual securities. Any unrealized holding losses on the date of the transfer are not recognized in net income but remain in accumulated other comprehensive loss. In accordance with ASC 320-10-15-10d, the unrealized loss amounts in accumulated other comprehensive loss are amortized simultaneously against interest income as the discount is accreted on the transferred securities. There is no effect on net income as the discount accretion offsets the accumulated other comprehensive loss amortization. The unamortized unrealized loss, before deferred taxes, was \$11,305,438 and \$15,516,336 at December 31, 2015 and 2014, respectively.

The amortized cost and estimated fair value of HTM securities and the corresponding amounts of gross unrecognized gains and losses were as follows:

<u>2015</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities held-to-maturity Obligations of U.S. Government agencies	\$161,043,404	\$8,002,431	\$ —	\$169,045,835
Total	\$161,043,404	\$8,002,431	\$ —	\$169,045,835
<u>2014</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities held-to-maturity Obligations of U.S. Government agencies	\$206,817,169	\$9,928,269	\$ —	\$216,745,438
Total	\$206,817,169	\$9,928,269	\$ —	\$216,745,438

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

The following tables show the gross unrealized losses and fair value of the Company's investments classified as AFS and HTM investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014.

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

December 31, 2015						
Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S.						
Government agencies	\$ 50,915	\$ 716	\$26,335	\$ 861	\$ 77,250	\$ 1,577
Mortgage backed securities	83,001	1,349	—	—	83,001	1,349
State, County, Municipal	2,393	10	12,623	172	15,016	182
Other investments	—	—	2,916	15	2,916	15
Total	<u>\$136,309</u>	<u>\$ 2,075</u>	<u>\$41,874</u>	<u>\$ 1,048</u>	<u>\$178,183</u>	<u>\$ 3,123</u>
December 31, 2014						
Description of Securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S.						
Government agencies	\$ —	\$ —	\$75,961	\$ 2,036	\$ 75,961	\$ 2,036
State, County, Municipal	697	3	14,980	357	15,677	360
Other investments	—	—	2,873	125	2,873	125
Total	<u>\$ 697</u>	<u>\$ 3</u>	<u>\$93,814</u>	<u>\$ 2,518</u>	<u>\$ 94,511</u>	<u>\$ 2,521</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

Investment Securities.

The Company's unrealized losses on its Obligations of United States Government agencies, Mortgage backed securities and State, County and Municipal bonds are the result of an upward trend in interest rates, mainly in the mid-term sector. None of the unrealized losses disclosed in the previous table are related to credit deterioration. The Company has determined that none of the securities in this classification are other-than-temporarily impaired at December 31, 2015 or December 31, 2014.

Other investments.

The Company's unrealized loss on other investments relates to an investment in a pooled trust preferred security. The decline in value of the pooled trust preferred security is related to the deterioration of the markets for these types of securities brought about by the lowered credit ratings and past deferrals and defaults of the underlying issuing financial institutions. However, due to the reductions in defaults and deferrals during the year, the unrealized losses have improved from \$124,678 in 2014 to \$15,425 in 2015. The Company owns a senior tranche of this security and therefore has a higher degree of which future deferrals and defaults would be required before the cash flow for the Company's tranche is negatively impacted. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell at a price less than amortized cost prior to maturity. Given these factors, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2015 or December 31, 2014. This security is not subject to any of the restrictions put forth under the Volcker Rule that was brought about by the passage of the Dodd-Frank Act.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

The amortized cost and estimated fair value of securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>AFS</u>	<u>Amortized</u>	<u>Fair Value</u>
	<u>Cost</u>	
Securities AFS		
Due in one year or less	\$ 3,008,448	\$ 3,028,887
Due after one year through five years	13,587,885	13,985,525
Due after five years through ten years	80,749,532	80,346,720
Due after ten years	169,962,891	169,903,271
Total	<u>\$267,308,756</u>	<u>\$267,264,403</u>
<u>HTM</u>	<u>Amortized</u>	<u>Fair Value</u>
	<u>Cost</u>	
Securities HTM		
Due after five years through ten years	\$ 37,052,187	\$ 38,528,059
Due after ten years	123,991,217	130,517,776
Total	<u>\$161,043,404</u>	<u>\$169,045,835</u>

Investment securities with fair values of \$201,482,967 and \$156,226,081 at December 31, 2015 and December 31, 2014, respectively, were pledged as collateral for public deposits.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Gross realized gains	\$142,422	\$206,258	\$1,039,793
Gross realized losses	124,919	191,716	616,405
	<u>\$ 17,503</u>	<u>\$ 14,542</u>	<u>\$ 423,388</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank of Dallas ("FHLB") system, owns stock in the organization. No ready market exists for the stock, and it has no quoted market value. The Company's investment in the FHLB is carried at cost of \$1,202,900 and \$1,347,600 at December 31, 2015 and December 31, 2014, respectively, and is included in other assets. The Company has had stock redeemed in 2015 and 2014 at the par value of \$100 per share.

While the Federal Home Loan Banks have been negatively impacted by the current economic conditions, the Federal Home Loan Bank of Dallas reported profits for 2015 and 2014, as of 2015 and 2014, was in compliance with its regulatory capital and liquidity requirements, and in 2015 and 2014, continued to pay dividends on its stock and make redemptions at the par value. With consideration given to these factors, management concluded that the stock was not impaired at December 31, 2015 or December 31, 2014.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans

The composition of loans, net at December 31, 2015 and 2014 is as follows:

	2015	2014
	(In Thousands)	
Real Estate:		
Land Development and Construction	\$ 33,133	\$ 43,233
Farmland	23,293	26,463
1-4 Family Mortgages	104,046	104,170
Commercial Real Estate	180,691	151,746
Total Real Estate Loans	<u>341,163</u>	<u>325,612</u>
Business Loans:		
Commercial and Industrial Loans	61,425	38,333
Farm Production and other Farm Loans	1,055	1,035
Total Business Loans	<u>62,480</u>	<u>39,368</u>
Consumer Loans:		
Credit Cards	1,061	1,075
Other Consumer Loans	25,564	25,440
Total Consumer Loans	<u>26,625</u>	<u>26,515</u>
Total Gross Loans	<u>430,268</u>	<u>391,495</u>
Unearned income	(686)	(535)
Allowance for loan losses	<u>(6,474)</u>	<u>(6,542)</u>
Loans, net	<u>\$423,108</u>	<u>\$384,418</u>

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

Loans are made principally to customers in the Company's market. The Company's lending policy provides that loans collateralized by real estate are normally made with loan-to-value ("LTV") ratios of 80 percent or less. Commercial loans are typically collateralized by property, equipment, inventories or receivables with LTV ratios from 50 percent to 80 percent. Real estate mortgage loans are collateralized by personal residences with LTV ratios of 80 percent or less. Consumer loans are typically collateralized by real estate, vehicles and other consumer durable goods. Approximately \$37.3 million and \$34.3 million of the loans outstanding at December 31, 2015 and December 31, 2014, respectively, were variable rate loans.

In the ordinary course of business, the Company has granted loans to certain directors and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans during 2015 is presented in the following table.

Balance outstanding at December 31, 2014	\$ 4,139,357
Principal additions	2,648,168
Principal reductions	<u>(1,166,551)</u>
Balance outstanding at December 31, 2015	<u>\$ 5,620,974</u>

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

Year-end non-accrual loans, segregated by class of loans, were as follows:

	2015	2014
	(in thousands)	
Real Estate:		
Land Development and Construction	\$ 75	\$ 92
Farmland	158	222
1-4 Family Mortgages	2,464	1,905
Commercial Real Estate	11,662	9,444
Total Real Estate Loans	<u>14,359</u>	<u>11,663</u>
Business Loans:		
Commercial and Industrial Loans	28	70
Total Business Loans	<u>28</u>	<u>70</u>
Consumer Loans:		
Other Consumer Loans	36	133
Total Consumer Loans	<u>36</u>	<u>133</u>
Total Non-Accrual Loans	<u><u>\$14,423</u></u>	<u><u>\$11,854</u></u>

In the event that non-accrual loans had performed in accordance with their original terms, the Company would have recognized additional interest income of approximately \$732,268, \$819,524 and \$813,710 in 2015, 2014 and 2013, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

An age analysis of past due loans, segregated by class of loans, as of December 31, 2015 was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 1,126	\$ 21	\$ 1,147	\$ 31,986	\$ 33,133	\$ 21
Farmland	947	4	951	22,342	23,293	4
1-4 Family Mortgages	5,131	573	5,704	98,342	104,046	—
Commercial Real Estate	4,015	6,748	10,763	169,928	180,691	—
Total Real Estate Loans	<u>11,219</u>	<u>7,346</u>	<u>18,565</u>	<u>322,598</u>	<u>341,163</u>	<u>25</u>
Business Loans:						
Commercial and Industrial Loans	245	12	257	61,168	61,425	12
Farm Production and other Farm Loans	12	—	12	1,043	1,055	—
Total Business Loans	<u>257</u>	<u>12</u>	<u>269</u>	<u>62,211</u>	<u>62,480</u>	<u>12</u>
Consumer Loans:						
Credit Cards	12	9	21	1,040	1,061	9
Other Consumer Loans	1,017	30	1,047	24,517	25,564	30
Total Consumer Loans	<u>1,029</u>	<u>39</u>	<u>1,068</u>	<u>25,557</u>	<u>26,625</u>	<u>39</u>
Total Loans	<u>\$12,505</u>	<u>\$ 7,397</u>	<u>\$19,902</u>	<u>\$410,366</u>	<u>\$430,268</u>	<u>\$ 76</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

An age analysis of past due loans, segregated by class of loans, as of December 31, 2014 was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 578	\$ —	\$ 578	\$ 42,655	\$ 43,233	\$ —
Farmland	889	17	906	25,557	26,463	—
1-4 Family Mortgages	4,606	837	5,443	98,727	104,170	131
Commercial Real Estate	2,211	4,471	6,682	145,064	151,746	724
Total Real Estate Loans	8,284	5,325	13,609	312,003	325,612	855
Business Loans:						
Commercial and Industrial Loans	115	3	118	38,215	38,333	3
Farm Production and other Farm Loans	22	—	22	1,013	1,035	—
Total Business Loans	137	3	140	39,228	39,368	3
Consumer Loans:						
Credit Cards	27	6	33	1,042	1,075	6
Other Consumer Loans	1,179	53	1,232	24,208	25,440	16
Total Consumer Loans	1,206	59	1,265	25,250	26,515	22
Total Loans	\$ 9,627	\$ 5,387	\$15,014	\$376,481	\$391,495	\$ 880

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

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

2015	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	\$ 75	\$ —	\$ 75	\$ 75	\$ 75	\$ 85
Farmland	679	69	610	679	54	739
1-4 Family Mortgages	3,103	1,754	1,349	3,103	183	2,829
Commercial Real Estate	11,662	1,409	10,253	11,662	2,685	10,552
Total Real Estate Loans	<u>15,519</u>	<u>3,232</u>	<u>12,287</u>	<u>15,519</u>	<u>2,997</u>	<u>14,205</u>
Business Loans:						
Commercial and Industrial Loans	28	28	—	28	—	49
Farm Production and other Farm Loans	—	—	—	—	—	—
Total Business Loans	<u>28</u>	<u>28</u>	<u>—</u>	<u>28</u>	<u>—</u>	<u>49</u>
Consumer Loans:						
Other Consumer Loans	36	36	—	36	—	78
Total Consumer Loans	<u>36</u>	<u>36</u>	<u>—</u>	<u>36</u>	<u>—</u>	<u>78</u>
Total Loans	<u>\$15,583</u>	<u>\$ 3,296</u>	<u>\$12,287</u>	<u>\$15,583</u>	<u>\$ 2,997</u>	<u>\$14,332</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

<u>2014</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment With No Allowance</u>	<u>Recorded Investment With Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
Real Estate:						
Land Development and Construction	\$ 92	\$ —	\$ 92	\$ 92	\$ 92	\$ 114
Farmland	798	104	694	798	108	575
1-4 Family Mortgages	2,554	1,685	869	2,554	143	2,210
Commercial Real Estate	9,444	895	8,549	9,444	1,642	9,169
Total Real Estate Loans	<u>12,888</u>	<u>2,684</u>	<u>10,204</u>	<u>12,888</u>	<u>1,985</u>	<u>12,068</u>
Business Loans:						
Commercial and Industrial Loans	70	30	40	70	40	1,147
Total Business Loans	<u>70</u>	<u>30</u>	<u>40</u>	<u>70</u>	<u>40</u>	<u>1,147</u>
Consumer Loans:						
Other Consumer Loans	121	121	—	121	—	120
Total Consumer Loans	<u>121</u>	<u>121</u>	<u>—</u>	<u>121</u>	<u>—</u>	<u>120</u>
Total Loans	<u>\$13,079</u>	<u>\$ 2,835</u>	<u>\$10,244</u>	<u>\$13,079</u>	<u>\$ 2,025</u>	<u>\$13,335</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2015			
Commercial real estate	<u>3</u>	<u>\$ 4,871</u>	<u>\$ 3,858</u>
Total	<u>3</u>	<u>\$ 4,871</u>	<u>\$ 3,858</u>
December 31, 2014			
Commercial real estate	<u>4</u>	<u>\$ 6,850</u>	<u>\$ 4,741</u>
Total	<u>4</u>	<u>\$ 6,850</u>	<u>\$ 4,741</u>

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

	Number of Loans	Recorded Investment
Totals at January 1, 2015	4	\$ 4,741
Additional loans with concessions		
Reductions due to:		
Charge-off	1	(349)
Principal paydowns		(534)
Total at December 31, 2015	<u>3</u>	<u>\$ 3,858</u>

The allocated allowance for loan losses attributable to restructured loans was \$174,274 at December 31, 2015 and 2014.

The Company had no remaining availability under commitments to lend additional funds on these troubled debt restructurings at December 31, 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

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

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

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

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

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

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

Grade 7. SUBSTANDARD ASSETS - Assets classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness based upon objective evidence. Assets classified as substandard are characterized by the distinct possibility that the

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

insured institution will sustain some loss if the deficiencies are not corrected. The possibility that liquidation would not be timely requires a substandard classification even if there is little likelihood of total loss.

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

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

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management's most updated judgment regarding grades at December 31, 2015.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2015 (in thousands):

Grades	Satisfactory 1, 2, 3, 4	Special Mention 5, 6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 31,889	\$ 202	\$ 1,042	\$ —	\$ —	\$ 33,133
Farmland	21,084	989	1,220	—	—	23,293
1-4 Family Mortgages	88,425	4,874	10,747	—	—	104,046
Commercial Real Estate	155,898	12,286	12,507	—	—	180,691
Total Real Estate Loans	297,296	18,351	25,516	—	—	341,163
Business Loans:						
Commercial and Industrial Loans	60,918	377	130	—	—	61,425
Farm Production and other Farm Loans	1,055	—	—	—	—	1,055
Total Business Loans	61,973	377	130	—	—	62,480
Consumer Loans:						
Credit Cards	1,052	—	9	—	—	1,061
Other Consumer Loans	24,666	111	777	7	3	25,564
Total Consumer Loans	25,718	111	786	7	3	26,625
Total Loans	\$384,987	\$18,839	\$ 26,432	\$ 7	\$ 3	\$430,268

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2014:

Grades	Satisfactory 1, 2, 3, 4	Special Mention 5, 6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	\$ 41,431	\$ 424	\$ 1,378	\$ —	\$ —	\$ 43,233
Farmland	23,993	708	1,762	—	—	26,463
1-4 Family Mortgages	86,969	5,351	11,850	—	—	104,170
Commercial Real Estate	126,881	13,558	11,307	—	—	151,746
Total Real Estate Loans	279,274	20,041	26,297	—	—	325,612
Business Loans:						
Commercial and Industrial Loans	37,890	232	211	—	—	38,333
Farm Production and other Farm Loans	1,035	—	—	—	—	1,035
Total Business Loans	38,925	232	211	—	—	39,368
Consumer Loans:						
Credit Cards	1,069	—	6	—	—	1,075
Other Consumer Loans	24,889	177	358	16	—	25,440
Total Consumer Loans	25,958	177	364	16	—	26,515
Total Loans	\$344,157	\$20,450	\$ 26,872	\$ 16	\$—	\$391,495

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

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

	2015	2014	2013
Real Estate:			
Land Development and Construction	\$ (8,700)	\$ 241,853	\$ (15,787)
Farmland	(5,156)	52,731	14,915
1-4 Family Mortgages	149,014	22,205	152,756
Commercial Real Estate	415,413	42,582	513,841
Total Real Estate Loans	<u>550,571</u>	<u>359,371</u>	<u>665,725</u>
Business Loans:			
Commercial and Industrial Loans	1,585	2,038,953	350,740
Farm Production and other Farm Loans	—	—	(1,700)
Total Business Loans	<u>1,585</u>	<u>2,038,953</u>	<u>349,040</u>
Consumer Loans:			
Credit Cards	15,493	11,482	17,726
Other Consumer Loans	57,661	49,022	48,387
Total Consumer Loans	<u>73,154</u>	<u>60,504</u>	<u>66,113</u>
Total Net Chargeoffs	<u><u>\$625,310</u></u>	<u><u>\$2,458,828</u></u>	<u><u>\$1,080,878</u></u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2015, 2014 and 2013:

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

2014	Real Estate	Business Loans	Consumer	Total
Beginning Balance	\$4,706,011	\$2,767,409	\$604,337	\$8,077,757
Provision for loan losses	855,511	145,359	(77,473)	923,397
Chargeoffs	560,298	2,050,939	121,093	2,732,330
Recoveries	200,927	11,986	60,589	273,502
Net Chargeoffs	359,371	2,038,953	60,504	2,458,828
Ending Balance	<u>\$5,202,151</u>	<u>\$ 873,815</u>	<u>\$466,360</u>	<u>\$6,542,326</u>
Period end allowance allocated to:				
Loans individually evaluated for impairment	\$1,984,671	\$ 40,083	\$ —	\$2,024,754
Loans collectively evaluated for impairment	3,217,480	833,732	466,360	4,517,572
Ending Balance	<u>\$5,202,151</u>	<u>\$ 873,815</u>	<u>\$466,360</u>	<u>\$6,542,326</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

2013	Real Estate	Business Loans	Consumer	Total
Beginning Balance	\$4,629,559	\$1,554,698	\$770,012	\$6,954,269
Provision for loan losses	742,177	1 ,561,751	(99,562)	2,204,366
Chargeoffs	763,914	375,498	135,302	1,274,714
Recoveries	98,189	26,458	69,189	193,836
Net Chargeoffs	665,725	349,040	66,113	1,080,878
Ending Balance	<u>\$4,706,011</u>	<u>\$2,767,409</u>	<u>\$604,337</u>	<u>\$8,077,757</u>
Period end allowance allocated to:				
Loans individually evaluated for impairment	\$1,224,874	\$1,071,729	\$ —	\$2,296,603
Loans collectively evaluated for impairment	3,481,137	1,695,680	604,337	5,781,154
Ending Balance	<u>\$4,706,011</u>	<u>\$2,767,409</u>	<u>\$604,337</u>	<u>\$8,077,757</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Continued

The Company's recorded investment in loans as of December 31, 2015 and 2014 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows (in thousands):

2015	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	\$ 15,519	\$ 28	\$ 36	\$ 15,583
Loans collectively evaluated for impairment	<u>325,644</u>	<u>62,452</u>	<u>26,589</u>	<u>414,685</u>
	<u>\$341,163</u>	<u>\$62,480</u>	<u>\$26,625</u>	<u>\$430,268</u>
2014	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	\$ 12,888	\$ 70	\$ 121	\$ 13,079
Loans collectively evaluated for impairment	<u>312,724</u>	<u>39,298</u>	<u>26,394</u>	<u>378,416</u>
	<u>\$325,612</u>	<u>\$39,368</u>	<u>\$26,515</u>	<u>\$391,495</u>

Note 5. Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2015 and December 31, 2014:

	2015	2014
Land and buildings	\$24,206,122	\$24,085,233
Furniture, fixtures and equipment	<u>15,459,401</u>	<u>15,161,067</u>
	39,665,523	39,246,300
Less accumulated depreciation	<u>21,009,832</u>	<u>20,006,070</u>
Total	<u>\$18,655,691</u>	<u>\$19,240,230</u>

Depreciation expense for the years ended December 31, 2015, 2014 and 2013, respectively, was \$1,040,207, \$1,190,393 and \$1,140,753.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Deposits

The composition of deposits as of December 31, 2015 and December 31, 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Non-interest bearing	\$148,724,257	\$145,729,932
NOW and money market accounts	323,381,170	268,567,815
Savings deposits	70,534,886	60,253,788
Time deposits, \$100,000 or more	116,023,999	121,360,214
Other time deposits	<u>94,740,476</u>	<u>100,182,145</u>
Total	<u>\$753,404,788</u>	<u>\$696,093,894</u>

The scheduled maturities of time deposits at December 31, 2015 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$163,727,234
2016	44,348,971
2017	2,459,254
2018	194,387
2019	<u>34,629</u>
	<u>\$210,764,475</u>

Interest expense for time deposits over \$100,000 was approximately \$626,000, \$671,000 and \$754,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Federal Home Loan Bank Advances

Pursuant to collateral agreements with the FHLB, advances are collateralized by all of the Bank's FHLB stock (\$1,202,900 included in other assets at December 31, 2015) and qualifying first mortgages and other loans. As of December 31, 2015, the balance in qualifying first mortgages and other loans was \$166,840,812. At December 31, 2015 and December 31, 2014, advances from the FHLB, along with their rate and maturity date, consist of the following:

Advance Amount at December 31,		Interest Rate	Final Maturity
2015	2014		
\$20,000,000	\$ 20,000,000	2.53	January 9, 2018

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

Year Due	Payment
2016	—
2017	—
2018	\$20,000,000
2019	—
2020	—

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Other Income and Other Expense

The following is a detail of the major income classifications that are included in other income under non-interest income on the income statement for the year ended December 31:

Other Income	2015	2014	2013
BOLI insurance	\$ 568,000	\$ 562,732	\$ 657,273
Mortgage loan origination fees	362,611	342,765	367,573
Other income	<u>1,228,546</u>	<u>1,212,938</u>	<u>529,608</u>
Total other income	<u>\$2,159,157</u>	<u>\$2,118,435</u>	<u>\$1,554,454</u>

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

Other Expense	2015	2014	2013
Advertising	\$ 793,282	\$ 769,081	\$ 621,216
Office supplies	591,177	774,961	563,706
Legal and audit fees	408,066	416,339	393,997
FDIC and state assessments	751,979	771,097	69,282
Telephone expense	431,761	408,646	442,781
Loan collection expense	205,549	621,227	554,542
Other losses	243,172	930,401	462,475
Debit card / ATM expense	337,476	330,612	830,396
Travel and convention	247,416	184,723	200,684
Other expenses	<u>3,060,638</u>	<u>2,826,567</u>	<u>3,081,797</u>
Total other expense	<u>\$7,070,516</u>	<u>\$8,033,654</u>	<u>\$7,220,876</u>

Other losses in 2015, 2014 and 2013 include the write-down on OREO in the amount of \$0, \$694,207 and \$276,400, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes

The consolidated provision for income taxes consists of the following:

	2015	2014	2013
Currently payable			
Federal	\$2,288,766	\$1,399,794	\$2,335,959
State	276,519	120,377	284,044
	2,565,285	1,520,171	2,620,003
Deferred (benefit) tax expense	(86,251)	307,920	(850,100)
Income tax expense	<u>\$2,479,034</u>	<u>\$1,828,091</u>	<u>\$1,769,903</u>

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

	2015	2014	2013
Federal taxes based on statutory rate	\$3,423,098	\$ 3,154,469	\$ 3,032,719
State income taxes, net of federal benefit	182,503	79,449	187,469
Tax-exempt investment interest	(928,246)	(1,006,536)	(1,159,571)
Other, net	(198,321)	(399,291)	(290,714)
Income tax expense	<u>\$2,479,034</u>	<u>\$ 1,828,091</u>	<u>\$ 1,769,903</u>

At December 31, 2015 and December 31, 2014, net deferred tax assets consist of the following:

	2015	2014
Deferred tax assets		
Allowance for loan losses	\$ 2,414,691	\$ 2,440,150
Deferred compensation liability	3,187,914	3,005,808
Intangible assets	30,516	92,276
Unrealized loss on securities available-for-sale	16,544	—
Unrealized loss on securities transferred to HTM	4,216,929	5,787,593
Other	538,744	570,076
Total	10,405,338	11,895,903
Deferred tax liabilities		
Premises and equipment	1,123,247	1,149,615
Unrealized gain on available-for-sale securities	—	504,545
Other	116,674	113,002
Total	<u>1,239,921</u>	<u>1,767,162</u>
Net deferred tax asset	<u>\$ 9,165,417</u>	<u>\$10,128,741</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Continued

The net deferred tax asset of \$9,165,417 and \$10,128,741 at December 31, 2015 and 2014, respectively. The Company has evaluated the need for a valuation allowance related to the above deferred tax assets and, based on the weight of the available evidence, has determined that it is more likely than not that all deferred tax assets will be realized.

As of December 31, 2015, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of December 31, 2015, the Company has not accrued for interest and penalties related to uncertain tax positions. It is the Company's policy to recognize interest or penalties related to income tax matters in income tax expense.

The Company and the Bank file a consolidated United States federal income tax return. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2012 through 2015. The Company and Bank's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2012 through 2015.

Note 10. Summarized Financial Information of Citizens Holding Company

Summarized financial information of Citizens Holding Company, excluding the Bank, at December 31, 2015 and December 31, 2014, and for the years ended December 31, 2015, 2014 and 2013, is as follows:

Balance Sheets		
December 31, 2015 and 2014		
	2015	2014
Assets		
Cash (1)	\$ 2,196,895	\$ 1,688,497
Investment in bank subsidiary (1)	83,753,973	79,797,988
Other assets (1)	474,468	371,301
Total assets	\$86,425,336	\$81,857,786
Liabilities		
Other liabilities	\$ —	\$ —
Stockholders' equity	86,425,336	81,857,786
Total liabilities and stockholders' equity	\$86,425,336	\$81,857,786

(1) Fully or partially eliminates in consolidation.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Continued

Income Statements
Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Interest income (1)	\$ 1,896	\$ 2,140	\$ 2,140
Other income			
Dividends from bank subsidiary (1)	5,568,900	4,371,900	4,332,000
Equity in undistributed earnings of bank subsidiary (1)	2,191,684	3,241,870	2,898,509
Other income	—	1,676	—
Total other income	7,762,480	7,615,446	7,230,509
Other expense	275,744	263,598	136,317
Income before income taxes	7,486,736	7,351,848	7,096,332
Income tax benefit	(102,165)	(97,610)	(53,528)
Net income	<u>\$7,588,901</u>	<u>\$7,449,759</u>	<u>\$7,149,860</u>

(1) Eliminates in consolidation.

Statements of Cash Flows
Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Cash flows from operating activities			
Net income	\$ 7,588,901	\$ 7,449,759	\$ 7,149,860
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed earnings of Bank	(2,191,684)	(3,241,870)	(2,898,509)
Stock compensation expense	117,300	115,000	—
Increase in other assets	(103,168)	(44,082)	(1,032)
Decrease in other liabilities	—	—	(400)
Net cash provided by operating activities	<u>5,411,349</u>	<u>4,278,807</u>	<u>4,249,919</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Continued

	2015	2014	2013
Cash flows from financing activities			
Dividends paid to stockholders	\$(4,540,748)	\$(4,341,076)	\$(4,285,371)
Repurchase of company stock	(390,205)	—	—
Excess tax benefit from equity grants	1,001	—	—
Proceeds from stock option exercises	27,000	—	128,950
Net cash used by financing activities	(4,902,951)	(4,341,076)	(4,156,421)
Net increase in cash	508,398	(62,269)	93,498
Cash, beginning of year	1,688,497	1,750,766	1,657,268
Cash, end of year	<u>\$ 2,196,895</u>	<u>\$ 1,688,497</u>	<u>\$ 1,750,766</u>

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

Note 11. Related Party Transactions

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

Activity in related party loans is detailed in tabular form in Note 5 of the notes to the Financial Statements.

Deposits from related parties at December 31, 2015 and December 31, 2014 approximated \$7,934,526 and \$6,587,915, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentrations of Risks

Commitments to Extend Credit

In the ordinary course of business, the Company makes various commitments and incurs certain contingent liabilities to fulfill the financing needs of its customers. These commitments and contingent liabilities include commitments to extend credit and issue standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. At December 31, 2015 and December 31, 2014, commitments related to unused lines of credit were \$44,358,972 and \$50,242,705, respectively, and standby letters of credit were \$2,860,480 and \$2,855,480, respectively. The fair value of such commitments is not materially different than stated values. As some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed credit worthiness of the borrower. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Interest Rate Risk

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

Legal Proceedings

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Continued

Concentration of Risk

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

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

Note 13. Lease Commitment and Total Rental Expense

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

<u>Years Ending December 31,</u>	<u>Amounts</u>
2016	\$285,808
2017	66,925
2018	26,721
2019	19,622
2020	19,306
	<u>\$418,382</u>

The total rental expense included in the income statements for the years ended December 31, 2015, 2014 and 2013 is \$111,684, \$104,384 and \$150,333, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Benefit Plans

The Company provides its employees with a profit sharing and savings plan, which allows employees to direct a percentage of their compensation into a tax deferred retirement account, subject to statutory limitations. To encourage participation, the Company provides a 50 percent matching contribution for up to a maximum of 3 percent of each participant's compensation, plus discretionary non-matching contributions. Employees are eligible after one year of service. For 2015, 2014 and 2013, the Company's contributions were \$496,363, \$485,251 and \$511,984, respectively.

Deferred Compensation Plans

The Company provides a deferred compensation plan covering its directors. Participants in the deferred compensation plan can defer a portion of their compensation for payment after attaining age 70. Life insurance contracts have been purchased which may be used to fund payments under the plan. Expenses related to this plan were \$179,552, \$174,509 and \$157,017 for the plan years ended December 31, 2015, 2014 and 2013, respectively.

The Company has also entered into deferred compensation arrangements with certain officers that provide for payments to such officers or their survivors after retirement. Life insurance policies have been purchased that may be used to fund all or a portion of the payments under these arrangements. The obligations of the Company under both the directors and officers deferred compensation arrangements are expensed on a systematic basis over the remaining expected service period of the individual directors and officers. Expenses related to this plan were \$640,291, \$514,635 and \$804,755 for the plan years ended December 31, 2015, 2014 and 2013, respectively.

Note 15. Regulatory Matters

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

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines involving quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total capital and Tier I capital to risk-weighted assets (as defined in the regulations) and Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2015, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Continued

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

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

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

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

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Continued

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

As of December 31, 2015 and 2014, the most recent regulatory notification categorized the Bank as well capitalized. There have been no conditions or events that would cause changes to the capital structure of the Company since this notification. To continue to be categorized as well capitalized under the regulatory framework for prompt corrective action, the Company would have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed below, in comparison with actual capital amounts and ratios (amounts in thousands):

	<u>Actual</u>		<u>Minimum Capital Requirement to be Well Capitalized</u>		<u>Minimum Capital Requirement to be Adequately Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2015						
Citizens Holding Company						
Tier 1 leverage ratio	\$90,392	9.26%	\$48,822	5.00%	\$39,058	4.00%
Common Equity tier 1 capital ratio	90,392	9.26%	63,469	6.50%	43,940	4.50%
Tier 1 risk-based capital ratio	90,392	16.37%	44,175	8.00%	33,131	6.00%
Total risk-based capital ratio	96,866	17.54%	55,219	10.00%	44,175	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$87,721	8.99%	\$48,800	5.00%	\$39,040	4.00%
Common Equity tier 1 capital ratio	87,721	8.99%	63,440	6.50%	43,920	4.50%
Tier 1 risk-based capital ratio	87,721	15.89%	44,150	8.00%	33,113	6.00%
Total risk-based capital ratio	94,194	17.07%	55,188	10.00%	44,150	8.00%
December 31, 2014						
Citizens Holding Company						
Tier 1 leverage ratio	\$87,589	9.60%	\$45,610	5.00%	\$36,488	4.00%
Common Equity tier 1 capital ratio	—	0.00%	—	0.00%	—	0.00%
Tier 1 risk-based capital ratio	87,589	16.60%	31,665	6.00%	21,110	4.00%
Total risk-based capital ratio	94,131	17.84%	52,775	10.00%	42,220	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$85,529	9.71%	\$44,059	5.00%	\$35,247	4.00%
Common Equity tier 1 capital ratio	—	0.00%	—	0.00%	—	0.00%
Tier 1 risk-based capital ratio	85,529	16.22%	31,643	6.00%	21,095	4.00%
Total risk-based capital ratio	92,071	17.46%	52,738	10.00%	42,190	8.00%

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Fair Values of Financial Instruments

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

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

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

Cash and Due from Banks and Interest Bearing Deposits with Banks

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Investment Securities

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

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2015:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government agencies	\$ —	\$ 82,250,366	\$ —	\$ 82,250,366
Mortgage-backed securities	—	91,721,965	—	91,721,965
State, County, Municipals	—	90,376,363	—	90,376,363
Other Investments	—	—	2,915,709	2,915,709
	<u>\$ —</u>	<u>\$264,348,694</u>	<u>\$2,915,709</u>	<u>\$267,264,403</u>

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S.				
Government agencies	\$ —	\$ 75,961,075	\$ —	\$ 75,961,075
Mortgage-backed securities	—	13,326,834	—	13,326,834
State, County, Municipals	—	87,584,498	—	87,584,498
Other Investments	—	—	2,872,723	2,872,723
	<u>\$ —</u>	<u>\$176,872,407</u>	<u>\$2,872,723</u>	<u>\$179,745,130</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following table reports the activity in assets measured at fair value on a recurring basis using significant unobservable inputs, during the years ended December 31, 2015 and December 31, 2014.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2015	2014
Balance at January 1	\$2,872,723	\$2,766,203
Principal payments received	(75,182)	(31,824)
Unrealized gains included in other comprehensive income	118,168	138,344
Balance at December 31	<u>\$2,915,709</u>	<u>\$2,872,723</u>
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date	\$ —	\$ —

As of December 31, 2015 and December 31, 2014, management determined, based on the current credit ratings, known defaults and deferrals by the underlying banks and the degree to which future defaults and deferrals would be required to occur before the cash flow for the Company's tranche is negatively impacted, that no other-than-temporary impairment exists.

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

Net Loans

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Impaired Loans

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

Other real estate owned

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following table presents assets measured at fair value on a nonrecurring basis during December 31, 2015 and 2014 and were still held at those respective dates:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
December 31, 2015				
Impaired loans	\$ —	\$ —	\$ 8,926,364	\$ 8,926,364
Other real estate owned	—	—	538,262	538,262
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,464,626</u>	<u>\$ 9,464,626</u>
December 31, 2014				
Impaired loans	\$ —	\$ —	\$ 8,218,696	\$ 8,218,696
Other real estate owned	—	—	3,309,824	3,309,824
	<u>\$ —</u>	<u>\$ —</u>	<u>\$11,528,520</u>	<u>\$11,528,520</u>

Impaired loans with a carrying value of \$12,286,822 and \$10,243,082 had an allocated allowance for loan losses of \$2,996,708 and \$2,024,754 at December 31, 2015 and December 31, 2014, respectively. The allocated allowance is based on the carrying value of the impaired loan and the fair value of the underlying collateral less estimated costs to sell.

After monitoring the carrying amounts for subsequent declines or impairment after foreclosure, management determined that a fair value adjustment to OREO in the amount of \$0 and \$694,207 was necessary and was recorded during the year ended December 31, 2015 and December 31, 2014, respectively.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

Federal Funds Sold and Securities Sold Under Agreement to Repurchase

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

Deposits

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

Federal Home Loan Bank Borrowings

The fair value of FHLB advances is based on discounted cash flow analysis.

Off-Balance Sheet Instruments

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

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Continued

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2015 and December 31, 2014:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2015					
Financial assets					
Cash and due from banks	\$ 14,947,690	\$ 14,947,690	\$ —	\$ —	\$ 14,947,690
Interest bearing deposits with banks	42,267,777	42,267,777	—	—	42,267,777
Securities available-for-sale	267,264,403	—	264,348,694	2,915,709	267,264,403
Securities held-to-maturity	161,043,404	—	169,045,835	—	169,045,835
Net loans	423,108,391	—	—	425,096,569	425,096,569
Financial liabilities					
Deposits	\$753,404,788	\$542,640,313	\$ —	\$210,890,430	\$753,530,743
Federal Home Loan Bank advances	20,000,000	—	—	20,534,935	20,534,935
Securities Sold under Agreement to Repurchase	104,298,182	104,298,182	—	—	104,298,182
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2014					
Financial assets					
Cash and due from banks	\$ 22,405,730	\$ 22,405,730	\$ —	\$ —	\$ 22,405,730
Interest bearing deposits with banks	61,481,223	61,481,223	—	—	61,481,223
Securities available-for-sale	179,745,130	—	176,872,407	2,872,723	179,745,130
Securities held-to-maturity	206,817,168	—	216,745,438	—	216,745,438
Net loans	384,417,508	—	—	386,206,117	386,206,117
Financial liabilities					
Deposits	\$696,093,894	\$474,551,535	\$ —	\$221,685,000	\$696,236,535
Federal Home Loan Bank advances	20,000,000	—	—	20,804,047	20,804,047
Securities Sold under Agreement to Repurchase	114,426,770	114,426,770	—	—	114,426,770

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Stock Options

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

The fair value of each option granted is estimated on the date of the grant using the Black-Sholes option-pricing model. No options were granted in 2015 or 2014 therefore no calculations were required in 2015 or 2014 to determine fair values.

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

During 2015, the Company's directors received restricted stock grants totaling 7,500 shares of common stock at a then market value of \$18.86 per share and in 2014 received 7,500 shares of common stock at a then market value of \$18.40 per share. These grants vest over a one-year period during which time the recipients have rights to vote the shares and to receive dividends. The grant date fair value of these shares granted in 2015 was \$141,450 and will be recognized over the one-year restriction period at a cost of \$11,788 per month less deferred taxes of \$4,397 per month. The grant date fair value of the shares granted in 2014 was \$138,000 and was recognized over the one-year restriction period at a cost of \$11,500 per month less deferred taxes of \$4,290 per month. During 2015 and 2014, the Company recorded expense of \$117,300 and \$115,000 and recorded deferred taxes in the amounts of \$44,250 and \$42,900, respectively, related to these restricted shares.

At December 31, 2015, there were 7,500 shares non-vested with \$47,150 in unrecognized stock-based compensation expense related to the 2013 Plan.

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Continued

Following is a summary of the status of the stock options remaining under the plans for the years ending December 31, 2015, 2014 and 2013:

	<u>Directors' Plan</u>		<u>Employees' Plan</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2013	111,000	\$ 20.97	108,000	\$ 20.90
Granted	—	—	—	—
Exercised	(3,000)	16.40	(7,000)	14.91
Expired	(4,500)	16.40	(19,000)	18.11
Outstanding at December 31, 2013	103,500	\$ 20.97	82,000	\$ 20.90
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	(7,500)	22.25	(35,500)	21.95
Outstanding at December 31, 2014	96,000	\$ 21.30	46,500	\$ 22.06
Granted	—	—	—	—
Exercised	—	—	(1,500)	18.00
Expired	(9,000)	20.00	(2,200)	21.05
Outstanding at December 31, 2015	<u>87,000</u>	<u>\$ 21.35</u>	<u>23,000</u>	<u>\$ 23.46</u>
Options exercisable at:				
December 31, 2015	<u>87,000</u>	<u>\$ 21.35</u>	<u>23,000</u>	<u>\$ 23.46</u>
Weighted average fair value of Options granted during years ended				
December 31, 2013		<u>\$—</u>		<u>\$—</u>
December 31, 2014		<u>\$—</u>		<u>\$—</u>
December 31, 2015		<u>\$—</u>		<u>\$—</u>

CITIZENS HOLDING COMPANY
Years Ended December 31, 2015, 2014 and 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Continued

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

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>	<u>Weighted Average Price</u>	<u>Weighted Average Life Remaining</u>
\$15.01 to \$20.00	25,500	18.40	4 years, 5 months
\$20.01 to \$22.50	39,000	21.23	3 years, 1 month
\$22.51 and above	45,500	24.18	1 years, 6 months
Total	<u>110,000</u>	<u>\$ 21.79</u>	<u>2 years, 9 months</u>

The intrinsic value of options granted under the Directors' Plan at December 31, 2015 was \$232,995 and the intrinsic value of the Employees' Plan at December 31, 2015 was \$5,980 for a total intrinsic value at December 31, 2015 of \$238,975. Additionally, the total intrinsic value of options exercised during 2015 and 2014 was \$1,950 and \$0, respectively.

There were no options granted during 2015 under the 2013 Plan.

OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2015, 2014 and 2013. In this discussion, all references to the activities, operations or financial performance of the Company reflect the Company's activities, operations and financial performance through its wholly-owned subsidiary, The Citizens Bank of Philadelphia, Mississippi (the "Bank"), unless otherwise specifically noted. The Company's financial statements and accompanying notes should be read in conjunction with this Management's Discussion and Analysis.

Over the past three years, the Company has experienced growth in total assets and total deposits as management has capitalized on opportunities for organic growth within the Company's market area and the addition of two branches in 2014. Total assets increased over the three-year period by \$92.7 million or 10.5%. In the three-year period, net income increased every year in the three-year period ended December 31, 2015. Although the cost of deposits decreased in all three years, the interest received on earning assets decreased at a faster rate and the net interest margin decreased in all three years. Loan loss provisions in 2015 and 2014 decreased after increasing in 2013. Regardless of the decreases in the interest margins, management believes it has made appropriate provisions for loan losses.

During 2015 as compared to 2014, the Company's total assets increased by \$52,443,861, or 5.7%, loans increased by \$38,690,883, or 10.1%, and total deposits increased by \$57,310,894, or 8.2%. Loans increased in 2015 due to the Company's expansion into new market areas that offset soft loan demand in other regions of the Company's service area. Certificates of deposit ended 2015 at \$210,764,475, or 4.9% lower than 2014. Demand, NOW, savings and money market accounts increased \$68,088,778, or 14.4% from December 31, 2014 to \$542,640,313 at December 31, 2015.

During 2014 as compared to 2013, the Company's total assets increased by \$47,991,781, or 5.5%, loans increased by \$312,742, or 0.1% and total deposits increased by \$41,464,098, or 6.3%. Loans increased in 2014 due to the Company's expansion into new market areas that offset soft loan demand. Certificates of deposit ended 2014 at \$221,542,359, or 4.7% lower than 2013. Demand, NOW, savings and money market accounts increased \$52,365,443, or 12.4%, to \$474,551,535 at December 31, 2014.

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

In 2014, the Company's net income after taxes increased to \$7,449,759, an increase of \$299,899 from 2013. Net interest income increased in 2014 primarily due to the reduction in

interest paid on FHLB advances. This increase was offset by the increase in non-interest expense in excess of the increase in non-interest income. Net income for 2014 produced, on a fully diluted basis, earnings per share of \$1.53 compared to \$1.47 in 2013 and \$1.39 for 2012.

In 2013, the Company's net income after taxes increased to \$7,149,860, an increase of \$365,861 from 2012. The decrease in rates on earning assets was greater than the decrease in rates paid on deposits in 2013. This decrease was offset by the increase in non-interest income and a decrease in other operating expenses. Net income for 2013 produced, on a fully diluted basis, earnings per share of \$1.47 compared to \$1.39 in 2012 and \$1.49 for 2011.

The Company's return on average assets ("ROA") was 0.80% in 2015, compared to 0.84% in 2014 and 0.81% in 2013. The Company's return on average equity ("ROE") was 9.01% in 2015, 10.17% in 2014 and 9.00% in 2013. During these periods, leverage capital ratios (the ratio of equity to average total assets) decreased from 9.63% in 2013 to 9.60% in 2014 and decreased to 9.26% in 2015. The ROE in 2015, 2014 and 2013 is a function of the level of net income and equity balances during those years. The changes in ROA were also a result of the Company's income increasing in 2013, 2014 and again in 2015 and also affected by the change in total assets during these time periods. The Company set the annual dividend payout rate to approximately 59.62% of 2015 earnings per share, as compared to 58.17% in 2014 and 59.86% in 2013. The leverage capital ratio of 9.26% in 2015 remains above the regulatory requirement of 5% to be considered "well capitalized" under applicable Federal Deposit Insurance Corporation (the "FDIC") guidelines for the Bank.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses

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

Other Than Temporary Impairment

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

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

Other Real Estate

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

Intangible Assets

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

Stock Based Compensation

The Company recognizes stock compensation expenses in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*. Generally, all options granted to employees and directors fully vest six months and one day after the date of grant, rather than vesting in tranches over a specified period. Given the limited historical amount of forfeited options, the Company has not reduced compensation expense for estimated forfeitures.

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

Income Taxes

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

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

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

SELECTED FINANCIAL DATA

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

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

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

	2015	2014	2013	2012	2011
Summary of Earnings					
Total Interest Income	\$ 30,965	\$ 31,380	\$ 32,116	\$ 34,388	\$ 36,974
Total Interest Expense	3,077	3,018	4,080	5,709	6,642
Provision for loan losses	556	923	2,204	1,546	2,995
Non-interest income	8,327	8,163	7,816	7,402	7,442
Non-interest expense	25,591	26,324	24,728	26,100	26,244
Income tax expense	2,479	1,828	1,770	1,651	1,317
Net Income	7,589	7,450	7,150	6,784	7,218
Per Share Data					
Earnings-basic	\$ 1.56	\$ 1.53	\$ 1.47	\$ 1.40	\$ 1.49
Earnings-diluted	1.56	1.53	1.47	1.39	1.49
Cash dividends	0.93	0.89	0.88	0.88	0.88
Book value at year end	17.73	16.78	13.61	18.28	17.77
Selected Year End Actual Balances					
Loans, net of unearned income	\$429,582	\$390,960	\$392,183	\$368,891	\$389,262
Allowance for loan losses	6,474	6,542	8,077	6,954	6,681
Investment Securities	428,308	386,562	398,176	420,908	374,508
Earning assets	894,765	833,845	785,592	802,220	760,744
Total assets	973,505	921,061	873,069	880,840	853,945
Deposits	753,405	696,094	654,630	642,549	572,338
Long term borrowings	20,000	20,000	33,626	68,674	68,677
Shareholders' equity	86,425	81,858	66,266	88,869	86,079
Selected Year End Average Balances					
Loans, net of unearned income	\$412,161	\$389,720	\$371,200	\$381,597	\$407,748
Allowance for loan losses	6,637	7,902	7,078	7,056	6,594
Investment securities	421,729	396,806	419,461	360,721	325,179
Earning assets	863,830	798,432	801,549	766,663	753,042
Total assets	945,270	884,688	882,285	842,456	829,177
Deposits	725,116	682,444	650,931	592,723	543,711
Long term borrowings	20,056	35,593	58,192	72,553	82,576
Shareholders' equity	84,250	73,219	79,458	87,972	82,254

	2015	2014	2013	2012	2011
Selected Ratios					
Return on average assets	0.80%	0.84%	0.81%	0.81%	0.87%
Return on average equity	9.01%	10.17%	9.00%	7.71%	8.78%
Dividend payout ratio	59.62%	58.17%	59.86%	62.86%	59.06%
Equity to year end assets	8.88%	8.89%	7.59%	10.09%	10.08%
Total risk-based capital to risk-adjusted assets	17.54%	17.84%	17.49%	18.22%	17.53%
Leverage capital ratio	9.26%	9.60%	9.63%	9.58%	9.47%
Efficiency ratio	68.69%	70.09%	67.52%	70.73%	68.51%

NET OPERATING INCOME

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

Net operating income for 2014 increased by 4.2% to \$7,449,759 or \$1.53 per share-basic and -diluted, from \$7,149,860, or \$1.47 per share-basic and -diluted for 2013. The provision for loan losses for 2014 was \$923,397 as compared to \$2,204,366 in 2013. The decrease in the loan loss provision for 2014 was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. Non-interest income increased by \$346,402, or 4.4%, and non-interest expense increased by \$1,596,101 or 6.5%, in 2014. Non-interest income for 2014 increased primarily due to an increase in service fees on deposit accounts and other service charges and the receipt of insurance proceeds that was the result of the death of a bank officer that was insured with bank owned life insurance. Non-interest expense increased due to increased writedowns on other real estate, an increase in regulatory and compliance costs, an increase in banking equipment related service costs and an increase in office supplies.

Net operating income for 2013 increased by 6.0% to \$7,149,860 or \$1.47 per share-basic and -diluted, from \$6,783,999, or \$1.40 per share-basic and \$1.39 per share-diluted for 2012. The provision for loan losses for 2013 was \$2,204,366 compared to the provision of \$1,545,797 in 2012. The increase in the loan loss provision for 2013 was mainly due to management's assessment of inherent losses in the loan portfolio including the impact caused by current local and national economic conditions. Non-interest income increased by \$414,323, or 5.6%, and non-interest expense decreased by \$1,372,356 or 5.3%, in 2013. Non-interest income for 2013 increased primarily due to an increase in service fees on deposit accounts and other service

charges. Non-interest expense decreased due to a decrease in salaries and benefits and a decrease in regulatory costs. The decrease in salaries and benefits is related to a reduction in the number of employees and the reduction in 401(k) matching for officers and employees.

NET INTEREST INCOME

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

Net interest income on a tax equivalent basis was \$28,879,000, \$29,411,000 and \$29,195,000 for the years 2015, 2014 and 2013, respectively. Net interest margin was 3.33%, 3.60% and 3.58% for the same periods. During 2015, the yields on interest earning assets declined less than the rates paid on interest bearing deposits with the largest decrease occurring in the rates paid on certificates of deposit. In 2015 as compared to 2014, interest-bearing assets increased by \$50.4 million, or 6.2% and interest bearing liabilities increased by \$41.088 million, or 6.2%. For the year ended December 31, 2015, the average yield on earnings assets was 3.68%, a decrease of 28 basis points compared to the average yield at December 31, 2014. The average rate paid on interest-bearing liabilities was 0.43%, a decrease of 2 basis points compared to the average rate at December 31, 2014.

During 2014, the yields on interest earning assets declined slightly less than the rates paid on interest bearing deposits with the largest decrease occurring in the rates paid on certificates of deposit. In 2014 as compared to 2013, interest-bearing assets increased by \$1.8 million, or 0.2% and interest bearing liabilities declined by \$6.1 million, or 0.9%. For the year ended December 31, 2014, the average yield on earnings assets was 3.96%, a decrease of 12 basis points compared to the average yield at December 31, 2013. The average rate paid on interest-bearing liabilities was 0.45%, a decrease of 15 basis points compared to the average rate at December 31, 2013.

For the year ended December 31, 2013, the average yield on earnings assets was 4.08%, a decrease of 58 basis points compared to the average yield at December 31, 2012. The average rate paid on interest-bearing liabilities was 0.60%, a decrease of 28 basis points compared to the average rate at December 31, 2012. The volume of earning assets increased 6.9% while the volume of interest-bearing liabilities increased 5.2% in 2013.

During this three-year period, loan demand improved in all periods. Loans generally provide the Company with yields that are greater than the yields on typical investment securities.

During 2003, the Company purchased \$11.4 million of additional bank-owned life insurance. The income received by the Company on these policies increased the Company's

total investment to approximately \$22.2 million at December 31, 2013, \$22.3 million at December 31, 2014 and \$23.1 million at December 31, 2015. The additional purchases were made to provide a future funding source for certain of the Company's deferred compensation arrangements. Such insurance also offers more attractive yields than other investment securities.

Table 2 – Average Balance Sheets and Interest Rates sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the fiscal years ended December 31, 2015, 2014 and 2013.

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

	Average Balance			Income/Expense			Average Yield/Rate		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Loans:									
Loans, net of unearned ⁽¹⁾	\$411,687	\$389,217	\$370,769	\$20,055	\$20,082	\$20,611	4.87%	5.16%	5.56%
Investment Securities									
Taxable	335,538	318,850	328,797	8,027	8,227	7,949	2.39%	2.58%	2.42%
Tax-exempt	85,597	91,933	101,543	3,756	4,071	4,697	4.39%	4.43%	4.63%
Total Investment Securities	421,135	410,783	430,340	11,783	12,298	12,646	2.80%	2.99%	2.94%
Federal Funds Sold and Other	35,336	17,806	14,882	90	49	52	0.25%	0.23%	0.35%
Total Interest Earning Assets ⁽¹⁾⁽²⁾	868,158	817,806	815,991	31,928	32,429	33,309	3.68%	3.96%	4.08%
Non-Earning Assets	77,112	66,882	66,294						
Total Assets	\$945,270	\$884,688	\$882,285						
Deposits:									
Interest-bearing Demand									
Deposits ⁽³⁾	\$300,636	\$262,142	\$240,524	\$ 693	\$ 550	\$ 561	0.23%	0.21%	0.23%
Savings	64,967	58,053	50,846	83	100	111	0.12%	0.17%	0.22%
Time	216,488	227,390	239,104	1,040	1,105	1,307	0.48%	0.49%	0.55%
Total Deposits	582,091	547,585	530,474	1,816	1,755	1,979	0.31%	0.32%	0.37%
Borrowed Funds									
Short-term Borrowings	106,988	84,813	85,804	720	573	666	0.67%	0.68%	0.78%
Long-term Borrowings	20,000	35,593	58,048	513	690	1,469	2.53%	1.94%	2.53%
Total Borrowed Funds	126,988	120,406	143,852	1,233	1,263	2,135	0.97%	1.05%	1.48%
Total Interest-Bearing Liabilities ⁽³⁾	709,079	667,991	674,326	3,049	3,018	4,114	0.43%	0.45%	0.61%
Non-Interest Bearing Liabilities									
Demand Deposits	142,322	134,859	120,457						
Other Liabilities	9,619	8,619	8,044						
Shareholders' Equity	84,250	73,219	79,458						
Total Liabilities and Shareholders' Equity	\$945,270	\$884,688	\$882,285						
Interest Rate Spread							3.25%	3.51%	3.47%
Net Interest Margin				\$28,879	\$29,411	\$29,195	3.33%	3.60%	3.58%
Less									
Tax Equivalent Adjustment				967	1,048	1,193			
Net Interest Income				\$27,912	\$28,363	\$28,002			

⁽¹⁾ Overdrafts on demand deposit accounts are not included in the average volume calculation as they are not considered interest earning assets by the Company. They are included in the "Non-Earning Assets" balance above.

- (2) Earning Assets in Table 2 does not include the dividend paying stock of the Federal Home Loan Bank.
- (3) Demand deposits are not included in the average volume calculation as they are not interest bearing liabilities. They are included within the non-interest bearing liabilities section above.

Table 3 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2015, 2014, and 2013.

TABLE 3 – NET AVERAGE INTEREST EARNING ASSETS

	(in thousands)		
	2015	2014	2013
Average interest earning assets	\$868,158	\$817,806	\$815,991
Average interest bearing liabilities	709,079	667,991	674,326
Net average interest earning assets	<u>\$159,079</u>	<u>\$149,815</u>	<u>\$141,665</u>

Table 4 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2013 through 2015. Variances, which were attributable to both volume and rate, are allocated proportionately between rate and volume using the absolute values of each for a basis for the allocation. Non-accruing loans are included in the average loan balances used in determining the yields. Interest income on tax-exempt securities and loans has been adjusted to a tax equivalent basis using a federal income tax rate of 34%.

TABLE 4 – VOLUME/RATE ANALYSIS
(in thousands)

	2015 Change from 2014			2014 Change from 2013		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$1,094	(1,121)	\$ (27)	\$ (582)	\$(2,053)	\$(2,635)
Taxable Securities	399	(599)	(200)	1,734	(1,111)	623
Non-Taxable Securities	(278)	(37)	(315)	(97)	(235)	(332)
Federal Funds Sold and Other	44	(3)	41	(17)	6	(11)
TOTAL INTEREST INCOME	<u>\$1,259</u>	<u>\$(1,760)</u>	<u>\$(501)</u>	<u>\$1,038</u>	<u>\$(3,393)</u>	<u>\$(2,355)</u>
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 89	54	143	\$ 106	\$ (318)	(212)
Savings Deposits	8	(25)	(17)	8	(31)	(23)
Time Deposits	(52)	(13)	(65)	(53)	(478)	(531)
Short-term borrowings	149	(2)	147	53	(141)	(88)
Long-term borrowings	(395)	218	(177)	(435)	(340)	(775)
TOTAL INTEREST EXPENSE	<u>\$ (201)</u>	<u>\$ 232</u>	<u>31</u>	<u>\$ (321)</u>	<u>\$(1,308)</u>	<u>(1,629)</u>
NET INTEREST INCOME	<u>\$1,460</u>	<u>\$(1,992)</u>	<u>\$(532)</u>	<u>\$1,359</u>	<u>\$(2,085)</u>	<u>\$ (726)</u>

LOANS

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

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

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

Loan demand in the Company's market improved in 2013, 2014 and 2015 after economic conditions began to show some improvement. Although the Company continues to face intense competition for available loans from other financial institutions and the current economic conditions have improved slightly, the Company was able in 2014 and 2015 to increase the amount of loans outstanding. The impact on the housing market caused by the opening of a casino on the nearby Choctaw Indian Reservation in 1995 has lessened. Real estate mortgage loans originated by the Company decreased by 0.1%, or \$124,295 in 2015, by 1.3%, or \$1,319,331, in 2014 and by 8.9%, or \$10,347,060, in 2013 when compared to the prior year. The decrease in mortgage loans in all years reflects the weakness in the local housing markets after seeing normal growth in the previous years.

Commercial and agricultural loans increased by \$48,886,679, or 22.5% in 2015, decreased by \$16,054,858 or 6.9% in 2014 and increased by \$21,885,761, or 10.3% in 2013. Commercial, financial and agricultural loans are the largest segment of the loan portfolio and, by nature, bear a higher degree of risk. Management believes the lending practices, policies and procedures applicable to this loan category are adequate to manage any risk represented by the growth of the loans in this category.

Consumer loans increased by \$110,443, or 0.4% in 2015 after declining \$192,299, or 0.7% in 2014 and \$2,477,767, or 8.6% in 2013, compared to the prior year. The Company believes that changes in consumer purchasing habits and the increase in loan sources have affected the growth of this segment of loans.

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

TABLE 5 – LOANS OUTSTANDING
(in thousands)

	2015	2014	AT DECEMBER 31,		
			2013	2012	2011
Commercial, financial and agricultural	\$266,464	\$217,577	\$233,632	\$211,746	\$203,458
Real estate - construction	33,133	43,233	27,224	12,755	13,481
Real estate - mortgage	104,046	104,170	105,489	115,837	133,987
Consumer	26,625	26,515	26,323	28,800	38,540
TOTAL LOANS	\$430,268	\$391,495	\$392,668	\$369,138	\$389,466

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

TABLE 6 – LOAN LIQUIDITY
LOAN MATURITIES AT DECEMBER 31, 2015

	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS	Total
Commercial, financial and agricultural	\$ 75,930	\$183,246	\$ 7,288	\$266,464
Real estate - construction	7,900	24,848	385	\$ 33,133
Real estate - mortgage	22,079	66,917	15,050	\$104,046
Consumer	12,907	13,092	626	\$ 26,625
Total loans	\$118,816	\$288,103	\$23,349	\$430,268

SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$275,630	\$ 9,372
Variable rates	12,473	13,977
Total loans	\$288,103	\$23,349

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

PROVISION FOR LOAN LOSSES AND ASSET QUALITY

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

The allowance for loan losses is established through a provision for loan losses charged against net income. This expense is determined by a number of factors, including historical loan losses, assessment of specific credit weaknesses within the portfolio, assessment of the prevailing economic climate, and other factors that may affect the overall condition of the loan portfolio. Management utilized these factors to determine the provision for loan losses for each of 2013, 2014 and 2015. The ratio of net loans charged off to average loans was 0.15% in 2015, 0.63% in 2014 and 0.29% in 2013. The chargeoffs in 2013, 2014 and 2015 reflect the weakness of the economy and the continuing local and national high unemployment. Management evaluates the adequacy of the allowance for loan loss on a monthly basis and makes adjustments to the allowance based on this analysis.

The provision for loan losses in 2015 was \$556,687 compared to \$923,397 in 2014 and \$2,204,366 in 2013. The decrease in the provision for 2015 and 2014 was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. The Company uses a model that takes into

account historical charge-offs and recoveries and applies that to certain loan segments of the Company's portfolio. At the end of 2015, the total allowance for loan losses was \$6,473,703, an amount that management believes to be sufficient to cover estimated probable losses in the loan portfolio.

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

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

	2015	2014	2013	2012	2011
BALANCE AT BEGINNING OF YEAR	\$ 6,542	\$ 8,078	\$ 6,954	\$ 6,681	\$ 6,379
LOANS CHARGED-OFF					
Commercial, financial and agricultural	457	2,213	915	920	1,523
Real estate - construction	—	249	1	99	67
Real estate - mortgage	201	149	223	250	922
Consumer	164	121	135	235	306
TOTAL CHARGE-OFFS	822	2,732	1,274	1,504	2,818
CHARGE-OFFS RECOVERED					
Commercial, financial and agricultural	45	79	38	69	21
Real estate - construction	9	7	16	11	6
Real estate - mortgage	52	126	71	29	11
Consumer	91	61	69	122	87
TOTAL RECOVERIES	197	273	194	231	125
Net loans charged-off	625	2,459	1,080	1,273	2,693
Additions charged to operating expense	557	923	2,204	1,546	2,995
BALANCE AT END OF YEAR	<u>\$ 6,474</u>	<u>\$ 6,542</u>	<u>\$ 8,078</u>	<u>\$ 6,954</u>	<u>\$ 6,681</u>
Loans, net of unearned, at year end	\$429,582	\$390,960	\$392,183	\$368,891	\$389,262
Ratio of allowance to loans at year end	1.51%	1.67%	2.06%	1.89%	1.72%
Average loans - net of unearned	\$412,172	\$389,720	\$371,200	\$381,597	\$407,748
Ratio of net loans charged-off to average loans	0.15%	0.63%	0.29%	0.33%	0.66%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	AT DECEMBER 31,				
	2015	2014	2013	2012	2011
Commercial, financial and agricultural	\$4,710	\$4,352	\$5,565	\$3,965	\$3,453
Real estate - construction	402	806	495	351	285
Real estate - mortgage	770	918	1,413	1,868	2,111
Consumer	592	466	604	770	832
Total	<u>\$6,474</u>	<u>\$6,542</u>	<u>\$8,077</u>	<u>\$6,954</u>	<u>\$6,681</u>

COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2015	2014	2013	2012	2011
Commercial, financial and agricultural	61.93%	55.58%	59.50%	57.36%	52.24%
Real estate - construction	7.70%	11.04%	6.93%	3.46%	3.46%
Real estate - mortgage	24.18%	26.61%	26.86%	31.38%	34.40%
Consumer	6.19%	6.77%	6.70%	7.80%	9.90%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Loan balances outstanding, as illustrated in Table 5, increased in 2015 even though the Company maintained tight credit standards, loan demand remained weak and the competition for loans was strong. In 2014 as compared to 2013, loans decreased due to increased competition for available loans and the Company's rigorous credit standards. The highest percentage increase in 2015 occurred in the commercial real estate category, primarily due to an increase in the demand in this market. The allowance for loan losses is allocated to the various categories based on the historical loss percentage for each segment of loan and any specific reserves that might be assigned to those loans.

Non-performing assets and the relative percentages of such assets to loan balances are presented in Table 8 – Non-performing Assets. Non-performing loans include non-accrual loans, loans delinquent 90 days or more based on contractual terms and troubled debt restructurings. Management classifies loans as non-accrual when it believes that collection of interest is doubtful. This typically occurs when payments are past due over 90 days, unless the loans are well secured and in the process of collection. Another measurement of asset quality is OREO, which represents properties acquired by the Company through foreclosure following loan defaults by customers. The percentage of OREO to total loans at December 31, 2015 was 0.90% compared to 1.04% in 2014. OREO decreased in 2015 after increasing in 2014 due to fewer foreclosures in 2015 and the sale of several parcels that were acquired in foreclosure in previous years.

Loans on non-accrual status amounted to \$14,422,613 in 2015 as compared to \$11,854,274 in 2014 and \$13,591,793 in 2013. Interest income forgone on loans classified as non-accrual in 2015 was \$732,268 as compared to \$819,524 in 2014 and \$813,710 in 2013. Upon the classification of a loan as non-accrual, all interest accrued on the loan prior to the time it is classified as non-accrual is reversed and interest accruals are suspended until such time that the loan is in compliance with its terms and deemed collectable.

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

	2015	2014	As of December 31, 2013	2012	2011
PRINCIPAL BALANCE					
Non-accrual	\$14,423	\$11,854	\$13,592	\$14,142	\$11,299
Accruing loans 90 days or more past due	76	880	2,095	609	269
Troubled debt restructurings	3,858	4,741	7,119	5,602	1,459
TOTAL NON-PERFORMING LOANS	\$18,357	\$17,475	\$22,806	\$20,353	\$13,027
Income on non-accrual loans not recorded	\$ 732	\$ 820	\$ 814	\$ 771	\$ 674
Non-performing as a percent of loans	4.26%	4.46%	5.81%	5.51%	3.34%
Other real estate owned	\$ 3,573	\$ 4,052	\$ 3,751	\$ 4,682	\$ 4,869
OREO as a percent of loans	0.90%	1.04%	0.96%	1.27%	1.25%
Allowance as a percent of non-performing loans	35.29%	37.44%	35.42%	34.17%	51.29%

ASC Subtopic 310-10, *Loan Impairments* outlines the guidance for evaluating impaired loans. These statements changed the methods of estimating the loan loss allowance for problem loans. In general, when management determines that principal and interest due under the contractual terms of a loan are not fully collectible, management must value the loan using discounted future expected cash flows. Management considers the Company's nonaccrual loans as being impaired under ASC Subtopic 310-10. The balances of impaired (including non-accruals) loans for the years 2015, 2014 and 2013 were \$15,581,418, \$13,079,337 and \$13,591,793, respectively.

This table details the impaired loans by category for years ending 2015, 2014 and 2013.

		AT DECEMBER 31,	
	2015	2014	2013
Commercial, financial and agricultural	\$12,368,556	\$10,312,674	\$11,469,394
Real estate - construction	75,070	91,540	136,271
Real estate - mortgage	3,102,372	2,554,284	1,865,718
Consumer	35,420	120,839	120,410
Total loans	\$15,581,418	\$13,079,337	\$13,591,793

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

At December 31, 2015, loans totaling \$30,932,030 were included on the Company’s watch list compared to \$31,921,730 at December 31, 2014. The majority of these loans are real estate loans that, although adequately collateralized, have experienced frequent delinquencies in scheduled payments. The inclusion of loans on this list does not indicate a greater risk of loss; rather it indicates that the loan possesses one of the several characteristics described above warranting increased oversight by management.

SECURITIES

At December 31, 2015, the Company classified its securities as AFS or HTM. AFS securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. HTM Securities are reported at amortized book value. The Company does not hold any securities classified as held for trading purposes.

Table 9 – Securities and Securities Maturity Schedule summarizes the amortized cost of securities from 2013 through 2015 and the maturity distribution at December 31, 2015, by classification.

TABLE 9 – SECURITIES
(in thousands)

	2015	2014	2013
SECURITIES AVAILABLE-FOR-SALE			
U. S. Government Agencies	\$ 82,250	\$ 77,997	\$316,305
Mortgage Backed Securities	91,722	12,502	16,476
State, County and Municipal Obligations	90,376	84,896	96,259
Other Securities	2,916	2,997	3,026
TOTAL SECURITIES AVAILABLE-FOR-SALE	\$267,264	\$178,392	\$432,066
	2015	2014	2013
SECURITIES HELD-TO-MATURITY			
U. S. Government Agencies	\$161,043	\$206,817	\$ —
TOTAL SECURITIES HELD-TO-MATURITY	\$161,043	\$206,817	\$ —

SECURITIES MATURITY SCHEDULE

	1 year or less		1 to 5 years		5 to 10 years		over 10 years	
	Actual Balance	Average Yield	Actual Balance	Average Yield	Actual Balance	Average Yield	Actual Balance	Average Yield
AVAILABLE-FOR-SALE								
U. S. Government Agencies(1)	\$ —	0.00%	\$ —	0.00%	\$52,476	2.31%	\$ 29,774	2.59%
Mortgage Backed Securities	—	0.00%	—	0.00%	5,010	2.32%	86,712	2.25%
State, County and Municipal(2)	3,029	4.42%	13,985	5.05%	22,861	5.17%	50,501	4.42%
Other Securities	—	0.00%	—	0.00%	—	0.00%	2,916	6.85%
TOTAL AVAILABLE-FOR-SALE	\$3,029	4.42%	\$13,985	5.05%	\$80,347	3.12%	\$169,903	3.04%
HELD-TO-MATURITY								
U. S. Government Agencies(1)	\$ —	0.00%	\$ —	0.00%	\$37,052	3.12%	\$123,991	3.81%
TOTAL HELD-TO-MATURITY	\$ —	0.00%	\$ —	0.00%	\$37,052	3.12%	\$123,991	3.81%

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

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

The change in the carrying value of the AFS portfolio is due to market value fluctuations resulting from the changing interest rate environment during 2015. This change is not used in the Tier 1 capital calculation.

As detailed in Table 9, the security portfolio increased \$43.1 million or 11.2% in 2015, decreased \$46.9 million or 10.8% in 2014 and increased \$18.1 million or 4.4% in 2013. The Company strives to maximize the yields on its portfolio while balancing pledging needs and managing risk. The Company seeks to invest most of its funds not needed for loan demand or the reduction of other borrowings in higher yielding securities and not in the lower yielding federal funds sold.

DEPOSITS

The Company offers a wide variety of deposit services to individual and commercial customers, such as non-interest-bearing and interest-bearing checking accounts, savings accounts, money market deposit accounts and time deposits. The deposit base is the Company's major funding source for earning assets. Time deposits decreased in 2015 and 2014 due to customers desiring to stay short and liquid with their deposits. During this time, all other segments of deposits increased.

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

TABLE 10 – DEPOSIT INFORMATION

	(in thousands, except percentages)					
	2015		2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$148,724		\$134,859		\$120,457	
Interest-bearing demand	323,381	0.21%	262,142	0.21%	240,524	0.22%
Savings	70,535	0.12%	58,053	0.12%	50,846	0.15%
Time deposits	210,765	0.49%	227,390	0.49%	239,104	0.55%
	<u>\$753,405</u>	<u>0.25%</u>	<u>\$682,444</u>	<u>0.25%</u>	<u>\$650,931</u>	<u>0.30%</u>

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

	AS OF DECEMBER 31, 2015
3 months or less	\$ 30,940
3 through 12 months	62,585
1 year to 3 years	22,499
over 3 years	0
	<u>\$ 116,024</u>

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

BORROWINGS

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

TABLE 11 - SHORT-TERM BORROWINGS
(in thousands)

	2015	As of December 31, 2014	2013
Short-term borrowings			
Year-end balance	\$104,298	\$114,427	\$ 82,421
Weighted average rate	0.68%	0.68%	0.67%
Maximum month-end balance	\$136,833	\$118,622	\$151,929
Year to date average balance	\$106,928	\$ 82,856	\$ 80,393
Weighted average rate	0.66%	0.66%	0.77%

The Company borrows funds for short periods from the FHLB as an alternative to Federal Funds Purchased. The Company foresees short-term borrowings to be a continued source of liquidity and likely will continue to use these borrowings as a method to fund short-term needs. At December 31, 2015, the Company had the capacity to borrow up to \$166,840,812 from the FHLB and other financial institutions in the form of Federal Funds Purchased. The Company generally will use these types of borrowings if loan demand is greater than the growth in deposits. In 2015, the Company retained its borrowings from the FHLB at \$20,000,000 and its Federal Funds Purchased at \$0. In 2014, the Company reduced its borrowing to \$20,000,000 from the FHLB and decreased its Federal Funds Purchased to \$0. In 2015, the balances in Securities Sold Under Agreement to Repurchase decreased \$10,128,588, or 8.9% to \$104,298,182. In 2014, these balances increased to \$114,426,770, an increase of \$32,005,989, or 38.8%.

At the end of 2015, the Company had long-term debt in the amount of \$20,000,000 to the FHLB for advances and \$48,017 payable to the State of Mississippi for advances under the Mississippi Agribusiness Enterprise Loan Program. This program provides interest-free loans to banks to fund loans to qualifying farmers. Farmers that qualify for the program receive 20% of their loan at zero interest. When the loan is repaid, the State of Mississippi receives 20% of the principal payment, which is equal to the amount advanced by the state, and the Company retains the balance of the principal payment.

The remaining maturity schedule of the long-term debt at December 31, 2015 is listed below.

	(in thousands) 2015
Less than one year	\$ —
One year to three years	20,003
Over three years	45
Total long-term borrowings	<u>\$ 20,048</u>

NON-INTEREST INCOME AND EXPENSE

Table 12 - Non-Interest Income and Expense illustrates the Company's non-interest income and expense from 2013 through 2015 and percentage changes between such years.

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

	% CHANGE 2015 FROM '14		2014	% CHANGE FROM '13 2013	
NON-INTEREST INCOME					
Service charges on deposit accounts	\$ 3,867	-1.68%	\$ 3,933	1.24%	\$ 3,885
Other operating income	<u>4,460</u>	<u>5.44%</u>	<u>4,230</u>	<u>7.61%</u>	<u>3,931</u>
TOTAL NON-INTEREST INCOME	<u>\$ 8,327</u>	<u>2.01%</u>	<u>\$ 8,163</u>	<u>4.44%</u>	<u>\$ 7,816</u>
NON-INTEREST EXPENSE					
Salaries and employee benefits	\$13,295	1.53%	\$13,095	-0.12%	\$13,111
Occupancy expense, including equipment	5,225	0.58%	5,195	18.18%	4,396
Other operating expense	<u>7,071</u>	<u>-11.99%</u>	<u>8,034</u>	<u>11.26%</u>	<u>7,221</u>
TOTAL NON-INTEREST EXPENSE	<u>\$25,591</u>	<u>-2.78%</u>	<u>\$26,324</u>	<u>6.45%</u>	<u>\$24,728</u>

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

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

During 2014 as compared to 2013, non-interest income increased by \$346,402, or 4.44%, when compared to 2013. An increase in other income and service charge income from checking accounts was partially offset by a decrease in proceeds from gains on sales of investment securities. Other income increased mainly due to the receipt of proceeds of an insurance policy that insured the life of a bank officer that died in 2014.

During 2013, non-interest income increased by \$414,323, or 5.59%, when compared to 2012. An increase in other income and service charge income from checking accounts was partially offset by a decrease in proceeds from gains on sales of investment securities.

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

In 2014 as compared to 2013, non-interest expense increased by \$1,596,101, or 6.5%, to \$26,323,712. Included in this increase was a reduction in salaries and benefits in the amount of \$15,580, or 0.1%, an increase in occupancy expense in the amount of \$798,903, or 18.2% and an increase in other expense in the amount of \$812,778, or 11.3%. The increase in occupancy expense is related to increased banking equipment service costs and the increase in other expense was in large part due to increased regulatory and compliance costs.

In 2013, non-interest expense decreased by \$1,372,356, or 5.3%, to \$24,727,611. Included in this decrease was a reduction in salaries and benefits in the amount of \$626,336, or 4.6% and a decrease in occupancy expense in the amount of \$91,704, or 2.0%. The decrease in occupancy expense is related to cost savings and the closing of a branch in Meridian, Mississippi in 2013.

In 2015, the Company's efficiency ratio was 68.69%, compared to 70.09% in 2014 and 67.52% in 2013. The efficiency ratio is calculated to measure the cost of generating one dollar of revenue. The efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income, on a fully tax equivalent basis, and non-interest income.

INCOME TAXES

The Company records a provision for income taxes currently payable, along with a provision for deferred taxes to be realized in the future. Such deferred taxes arise from differences in timing of certain items for financial statement reporting rather than income tax reporting. The deferred tax amount of \$9,165,417 is considered realizable without the use of extraordinary tax planning strategies.

The Company's effective tax rate was 24.62%, 19.70% and 19.84% in 2015, 2014 and 2013, respectively. The major difference between the effective tax rate applied to the Company's financial statement income and the federal statutory rate of 34% is interest on tax-exempt securities and loans. Further tax information is disclosed in Note 10, "Income Taxes" to the Company's Consolidated Financial Statements included in this Annual Report.

LIQUIDITY AND RATE SENSITIVITY

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

The Company's predominant sources of funding include: core deposits (consisting of both commercial and individual deposits); proceeds from maturities of securities; repayments of loan principal and interest; Federal Funds Purchased; and short-term and long-term borrowing from the FHLB. In 2015 as compared to 2014, the Company experienced an increase in deposits and an increase in loans outstanding. The increase in investment securities is mainly the result of the desire to invest funds not needed for funding current loan obligations. The Company relies upon non-core sources of funding, such as Federal Funds Purchased and short and long term borrowings from the FHLB, when deposit growth is not adequate to meet its short term needs. While the strategy of using these wholesale funding sources is adequate to cover liquidity deficiencies in the short term, the Company's goal is to increase core deposits as a source of long term funding. Management does not intend to rely on borrowings from the FHLB as the first choice as a source of funds but prefers to increase core deposits through increased competition for available deposits. Management believes that core deposits can continue to be increased by offering competitive rates and superior service to the Bank's customers.

The Company maintained its \$20,000,000 of FHLB advances that will mature during 2018 and will continue to use advances if they are needed to maintain the Company's liquidity position.

The deposit base is diversified between individual and commercial accounts, which the Company believes helps it avoid dependence on large concentrations of funds. The Company does not solicit certificates of deposit from brokers. The primary sources of liquidity on the asset side of the balance sheet are federal funds sold and securities classified as AFS. Approximately 62%, or \$267,264,403 of the investment securities portfolio is classified in the AFS category, and is available to be sold, should liquidity needs arise. Management, through its Asset Liability Committee ("ALCO"), and the Board review the Company's liquidity position on a monthly basis. At December 31, 2015, both the ALCO and the Board of Directors determined that the Company's liquidity position was adequate.

Table 13 - Funding Uses and Sources details the main components of cash flows for 2015 and 2014.

TABLE 13 - FUNDING USES AND SOURCES
(in thousands)

	2015			2014		
	Average Balance	Increase/(decrease) Amount	Percent	Average Balance	Increase/(decrease) Amount	Percent
FUNDING USES						
Loans, net of unearned income	\$411,687	\$ 22,470	5.77%	\$389,217	\$ 18,448	4.98%
Taxable securities	335,537	16,687	5.23%	318,850	(9,947)	-3.03%
Tax-exempt securities	85,597	(6,336)	-6.89%	91,933	(9,610)	-9.46%
Federal funds sold and other	35,336	17,530	98.45%	17,806	2,925	19.66%
TOTAL USES	\$868,157	\$ 50,351	6.16%	\$817,806	\$ 1,816	0.22%
FUNDING SOURCES						
Noninterest-bearing deposits	\$142,322	\$ 7,463	5.53%	\$134,859	\$ 14,402	11.96%
Interest-bearing demand and savings deposits	365,603	46,129	14.44%	319,474	29,017	9.99%
Time deposits	216,488	(10,902)	-4.79%	227,390	(11,714)	-4.90%
Short-term borrowings	60	(1,897)	-96.93%	1,957	(3,454)	-63.83%
Commercial repo	106,928	24,072	29.05%	82,856	2,463	3.06%
Long-term debt	20,048	(15,545)	-43.67%	35,593	(22,455)	-38.68%
TOTAL SOURCES	\$851,449	\$ 49,320	6.15%	\$802,129	\$ 8,259	1.10%

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

CAPITAL RESOURCES

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

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

During 2015 as compared to 2014, total capital increased primarily due to earnings that were in excess of dividends.

Management believes the Company and the Bank meet all the capital requirements to be well-capitalized under the guidelines established by FDICIA as of December 31, 2015, as noted below in Table 14 - Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

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

	2015	At December 31, 2014	2013
Tier 1 capital			
Shareholders' equity	\$ 86,425	\$ 81,858	\$ 66,266
Less: Intangibles	(3,150)	(3,150)	(3,150)
Add/less: Unrealized loss/(gain) on securities	7,117	8,881	21,249
TOTAL TIER 1 CAPITAL	\$ 90,392	\$ 87,589	\$ 84,365
Total capital			
Tier 1 capital	\$ 90,392	\$ 87,589	\$ 84,365
Allowable allowance for loan losses	6,474	6,542	6,517
TOTAL CAPITAL	\$ 96,866	\$ 94,131	\$ 90,882
RISK WEIGHTED ASSETS	\$552,186	\$527,749	\$519,766
AVERAGE ASSETS (FOURTH QUARTER)	\$976,448	\$912,195	\$875,659
TIER 1 LEVERAGE RATIO	9.26%	9.60%	9.63%
COMMON EQUITY TIER 1 CAPITAL RATIO	9.26%	—	—
TIER 1 RISK-BASED CAPITAL RATIO	16.37%	16.60%	16.23%
TOTAL RISK-BASED CAPITAL RATIO	17.54%	17.84%	17.49%

Management's strategy with respect to capital levels is to maintain a sufficient amount of capital to allow the Company to respond to growth and acquisition opportunities in the Bank's service area. Over the past three years, the Company has been able to increase the amount of its capital, through retention of earnings, while still maintaining the dividend payout ratio to approximately 60% of earnings per share. The Company does not currently have any commitments for capital expenditures that would require the Company to raise additional capital by means other than retained earnings. The Company does not plan to change this strategy unless needed to support future acquisition activity.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

The following table summarizes the contractual obligations, excluding deposits, of the Company as of December 31, 2015.

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Long Term Debt	\$20,000	\$ —	\$20,000	\$—	\$—
Operating Leases	419	286	94	39	—
Other Long-term Liabilities	48	—	3	45	—
Total	<u>\$20,467</u>	<u>\$ 286</u>	<u>\$20,097</u>	<u>\$ 84</u>	<u>\$—</u>

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

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

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

MARKET/INTEREST RATE RISK MANAGEMENT

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

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

In addition to the quarterly interest rate risk report, the Company employs a number of tools to measure interest rate risk. One tool is static gap analysis, which matches assets with specified maturities to liabilities with corresponding maturities. Although management believes that this does not provide a complete picture of the Company's exposure to interest rate risk, it does highlight significant short-term repricing volume mismatches. The following table presents the Company's rate sensitivity static gap analysis at December 31, 2015 (\$ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	\$ 325,280	\$ 75,798
Total rate sensitive liabilities	551,863	110,079
Net gap	<u>\$(226,583)</u>	<u>\$ (34,281)</u>

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

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

products (money market, NOW and savings accounts), the tables present principal cash flows in the shortest term. Although these deposits may not reprice within this time frame, the depositors of such funds have the ability to reprice. Weighted average floating rates are based on the rate for that product as of December 31, 2015 and December 31, 2014.

TABLE 15 - INTEREST RATE SENSITIVITY AS OF DECEMBER 31, 2015
(in thousands)

	2016	2017	2018	2019	2020	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$107,985	\$52,320	\$48,199	\$97,077	\$78,034	\$ 9,372	\$392,987	\$394,289
Average Int Rate	5.37%	5.59%	5.22%	4.90%	4.58%	4.86%	5.06%	
Floating Rate	\$ 10,832	\$ 891	\$ 3,032	\$ 6,819	\$ 1,730	\$ 13,977	\$ 37,281	\$ 37,281
Average Int Rate	3.62%	4.25%	4.52%	3.45%	5.36%	4.85%	4.22%	
Investment securities								
Fixed Rate	\$ 3,008	\$ 2,828	\$ 3,173	\$ 4,400	\$56,780	\$355,232	\$425,421	\$433,394
Average Int Rate	4.42%	4.76%	5.15%	4.54%	2.25%	3.44%	3.32%	
Floating Rate						\$ 2,931	\$ 2,931	\$ 2,916
Average Int Rate						4.08%	4.08%	
Other earning assets								
Fixed Rate	\$ 42,268						\$ 42,268	\$ 42,268
Average Int Rate	0.50%						0.50%	
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$557,644	\$44,349	\$ 2,459	\$ 194	\$ 35	\$ 0	\$604,681	\$604,806
Average Int Rate	0.28%	0.57%	0.56%	0.55%	0.55%	0.00%	0.31%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate			\$20,000				\$ 20,000	\$ 20,535
Average Int Rate			2.53%				2.53%	
Floating Rate	\$104,298						\$104,298	\$104,298
Average Int Rate	0.68%						0.68%	

AS OF DECEMBER 31, 2014
(in thousands)

	2015	2016	2017	2018	2019	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$ 68,076	\$65,820	\$51,163	\$41,910	\$103,831	\$ 26,398	\$357,198	\$359,427
Average Int Rate	5.37%	5.59%	5.22%	4.90%	4.58%	4.86%	5.06%	
Floating Rate	\$ 4,185	\$ 4,282	\$ 863	\$ 2,462	\$ 9,571	\$ 12,934	\$ 34,297	\$ 34,297
Average Int Rate	4.41%	3.79%	4.26%	4.33%	3.33%	4.97%	4.23%	
Investment securities								
Fixed Rate	\$ 3,081	\$ 4,219	\$ 6,186	\$ 5,986	\$ 7,997	\$354,743	\$382,212	\$393,618
Average Int Rate	4.88%	4.56%	3.83%	5.27%	4.21%	3.64%	3.73%	
Floating Rate						\$ 2,997	\$ 2,997	\$ 2,873
Average Int Rate						7.71%	7.71%	
Other earning assets								
Fixed Rate	\$ 61,481						\$ 61,481	\$ 61,481
Average Int Rate	0.25%						0.25%	
Floating Rate								
Average Int Rate								
Interest-bearing deposits								
Fixed Rate	\$495,154	\$38,921	\$ 2,716	\$ 198	\$ 168	\$ 0	\$537,157	\$537,315
Average Int Rate	0.29%	0.59%	0.55%	0.55%	0.55%	0.00%	0.41%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate				\$20,000			\$ 20,000	\$ 20,804
Average Int Rate				2.53%			2.53%	
Floating Rate	\$114,427						\$114,427	\$114,427
Average Int Rate	0.68%						0.68%	

Rate sensitivity gap analysis is another tool management uses to measure interest rate risk. The rate sensitivity gap is the difference between the repricing of interest-earning assets and the repricing of interest-bearing liabilities within certain defined time frames. The Company's interest rate sensitivity position is influenced by the distribution of interest-earning assets and interest-bearing liabilities among the maturity categories. Table 16 - Rate Sensitivity Gap reflects interest-earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2015. Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 16 - RATE SENSITIVITY GAP AT DECEMBER 31, 2015
(in thousands, except percentage amounts)

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
INTEREST EARNING ASSETS					
Loans	\$ 46,655	\$ 72,161	\$288,103	\$ 23,349	\$430,268
Investment securities	236,357	3,637	99,745	88,613	428,352
Interest Bearing Due From Bank Accounts	42,268	—	—	—	42,268
TOTAL INTEREST BEARING ASSETS	\$ 325,280	\$ 75,798	\$387,848	\$111,962	\$900,888
INTEREST BEARING LIABILITIES					
Interest bearing demand deposits	\$ 300,857	\$ —	\$ —	\$ —	\$300,857
Savings and Money Market deposits	93,060	—	—	—	93,060
Time deposits	53,648	110,079	47,037	—	210,764
Short term borrowings	104,298	—	—	—	104,298
Long term borrowings	—	—	20,048	—	20,048
TOTAL INTEREST BEARING LIABILITIES	\$ 551,863	\$ 110,079	\$ 67,085	\$ —	\$729,027
Rate sensitive gap	\$(226,583)	\$ (34,281)	\$320,763	\$111,962	\$171,861
Rate sensitive cumulative gap	(226,583)	(260,864)	59,899	171,861	—
Cumulative gap as a percentage of total earning assets	-25.15%	-28.96%	6.65%	19.08%	

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

The above rate sensitivity analysis places interest-bearing demand and savings deposits in the shortest maturity category because these liabilities do not have defined maturities. If these deposits were placed in a maturity distribution representative of the Company's deposit base history, the shortfall of the negative rate sensitive gap position would be reduced in the 1-to-90 day time frame. It is the goal of the Company to achieve a cumulative gap ratio of plus or minus 15% for all periods under one year, with maximum acceptable limits of plus or minus 20%. Quarterly, management discusses with the ALCO and the board of directors the gap position in relation to the established goals, highlights any reasons for variances from the goals and suggests changes to better align the Company's position with the established goals. When reviewing the

Company's position, impacting factors and suggested changes, the board of directors also considers other corporate objectives, including increasing core deposits and increasing profitability, before implementing changes intended to align the Company's position with the established goals. While the board of directors continues to closely monitor the Company's negative gap position, at this time, management does not anticipate making any significant changes to the Company's operating practices in order to mitigate the negative gap position.

The rate sensitivity gap table illustrates that the Company had a large negative cumulative gap position for the 1 to 90-day period as of December 31, 2015. This negative gap position was mainly due to: (1) a largest amount of investment securities that have call dates within that period; (2) the interest-bearing and savings deposits being classified in the 1-90-day category; (3) approximately 77.7% of certificates of deposit maturing during the next twelve months; and (4) a significant portion of the Company's loans maturing after one year.

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

Short term interest rates have remained low in 2013, 2014 and most of 2015 in connection with decreases in the target Federal Funds rate by the Federal Reserve Bank. In December 2015, the Federal Reserve Bank increased its target Federal Funds rate to 50 basis points. During 2013, medium term interest rates increased in anticipation of the ending of bond buying program by the Federal Reserve Bank before decreasing again in 2014. After the rate increase in 2015, medium term rates began to decline again. Overall, the effect on the Company was marginal. The Company's net interest margin in 2015 was 3.33% and in 2014 was 3.60%.

Quarterly Financial Trends

(in thousands, except per share amounts)

	2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$ 7,706	\$ 7,696	\$ 7,789	\$ 7,774
Interest Expense	751	736	765	825
Net Interest Income	6,955	6,960	7,024	6,949
Provision for Loan Losses	184	82	142	148
Non-interest Income	1,752	1,852	2,017	2,706
Non-interest Expense	6,487	6,321	6,475	6,308
Income Taxes	442	581	587	869
Net Income	<u>\$ 1,594</u>	<u>\$ 1,828</u>	<u>\$ 1,837</u>	<u>\$ 2,330</u>
Per common share:				
Basic	\$ 0.33	\$ 0.37	\$ 0.38	\$ 0.48
Diluted	\$ 0.33	\$ 0.37	\$ 0.38	\$ 0.48
Cash Dividends	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.24

	2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest Income	\$ 7,946	\$ 7,926	\$ 7,829	\$ 7,679
Interest Expense	729	734	758	797
Net Interest Income	7,217	7,192	7,071	6,882
Provision for Loan Losses	361	212	205	145
Non-interest Income	1,783	2,484	2,056	1,840
Non-interest Expense	6,369	7,046	6,439	6,470
Income Taxes	473	325	585	445
Net Income	<u>\$ 1,797</u>	<u>\$ 2,093</u>	<u>\$ 1,898</u>	<u>\$ 1,662</u>
Per common share:				
Basic	\$ 0.37	\$ 0.43	\$ 0.39	\$ 0.34
Diluted	\$ 0.37	\$ 0.43	\$ 0.39	\$ 0.34
Cash Dividends	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.23

Market Price and Dividend Information

MARKET PRICE INFORMATION

The Company's common stock trades on the NASDAQ Global Market ("NASDAQ") under the symbol "CIZN". On March 2, 2016, the common stock's closing price on NASDAQ was \$22.95. The following table sets forth the high and low sales prices for the common stock as reported on NASDAQ, as well as the dividends declared, in each quarter in the past two fiscal years.

<u>2014</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$19.34	\$17.94	0.22
April - June	19.94	18.25	0.22
July - September	19.50	18.28	0.22
October - December	19.75	18.54	0.23

<u>2015</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared (per common share)</u>
January - March	\$19.72	\$17.10	0.23
April - June	22.85	17.70	0.23
July - September	22.25	19.06	0.23
October - December	23.72	20.51	0.24

On March 2, 2016, shares of the Company's common stock were held of record by approximately 445 shareholders.

DIVIDENDS

Dividends totaled \$0.93 per share for 2015 and \$0.89 per share for 2014.

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

The following chart shows the Company repurchases of shares for the three-month period ended December 31, 2015:

Company Purchases of Equity Securities

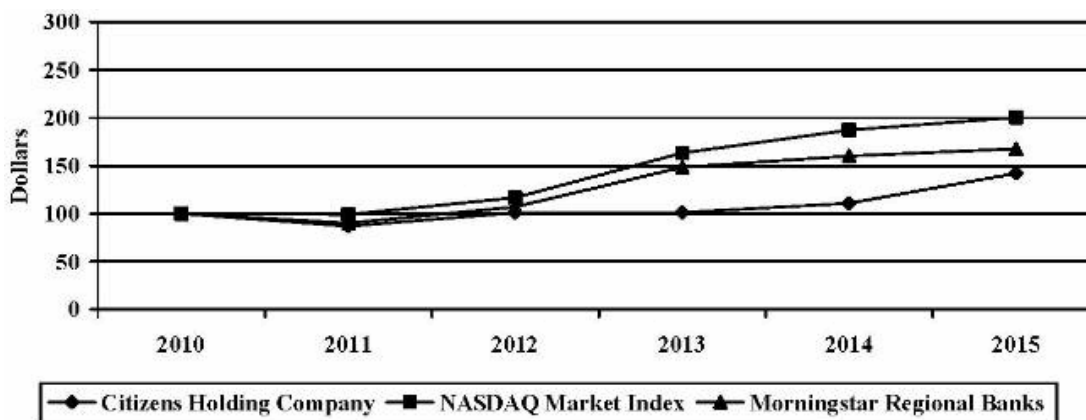
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs ⁽¹⁾
October 1, 2015 - October 31, 2015	—	\$ —	—	180,965
November 1, 2015 - November 30, 2015	—	—	—	180,965
December 1, 2015 - December 31, 2015	—	—	—	180,965
Total	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>180,965</u>

⁽¹⁾ This number reflects the amount of shares of the Company's common stock that were available for purchase under its 200,000 share repurchase program authorized by the Company's Board of Directors in August 2014.

STOCK PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's common stock to the NASDAQ Composite Index and the Morningstar Regional Bank index (a peer group of other regional bank holding companies) for the Company's reporting period. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 at December 31, 2010 and that all dividends were reinvested.

Performance Graph
December 31, 2010 - December 31, 2015



	2010	2011	2012	2013	2014	2015
Citizens Holding Company	100.00	86.92	100.99	101.25	110.88	141.95
NASDAQ Market Index	100.00	99.17	116.48	163.21	187.27	200.31
Morningstar Regional Banks	100.00	90.02	106.94	148.37	159.97	167.70

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

THE CITIZENS BANK OFFICERS

Greg McKee
President and CEO

Robert T. Smith
Senior Vice President, CFO

Erdis Chaney
Vice President, Senior Deposit Officer

Ledale Reynolds
Vice President and CIO

Ray Stone
Vice President, Senior Credit Officer

Mark Taylor
Vice President, COO, Trust Officer

Randy Cheatham
Vice President, Security Officer

Jackie Hester
Vice President, Marketing Officer

Darrel Bates
Vice President

Jean T. Fulton
Vice President, Internal Auditor

Gayle Sharp
Vice President, Loan Operations Manager

Brad Copeland
Vice President

Mark Majure
Vice President, Loan Review Officer

Vicki Brown
Vice President, BSA Officer

Bob Posey
Vice President

Mike Chandler
Vice President

Stacy Arnold
Vice President, Compliance Officer

Joshua Sullivan
Vice President, Senior Credit Analyst

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

Sommer Vick
Assistant Vice President
Assistant Trust Officer

Beth Branning
Assistant Vice President

Mitch Peden
Assistant Vice President,
Information Services Manager

Mark Flake
Assistant Vice President,
Network Services Manager

Pat Stokes
Assistant Vice President
Operations Officer

Scott Lewis
Assistant Vice President
Information Security Officer

Sam Mars
Assistant Vice President

Ashley Peebles
Assistant Vice President
Director of Deposit Services

Tammy Pope
Accounting Officer

Greg Jackson
Accounting Officer

Deborah Ladd
Item Processing Officer

Sandra Curtis
Assistant Cashier, Teller Administrator

Temika Triplett
Assistant Cashier, Electronic Services Officer

Carthage Branch

Mike Brooks
President

Billy Cook
Vice President

Sue Fisher
Assistant Vice President
Deposit Operations Officer

Sebastopol Branch

Connie Comans
President

Union and Decatur Branches

Camp Keith
Vice President, Senior Consumer
Credit Officer

Marianne Strickland
Assistant Cashier, Branch Operations Officer

Kosciusko Branch

Teresa Patterson
Vice President

David Blair, Mortgage Loan Officer
Vice President

Scooba and DeKalb Branches

Reggie Moore
Assistant Vice President

Jan White
Branch Operations Officer

Forest Branch

Richard Latham
Vice President

Louisville Branch

Bruce Lee
President

Lynn Graham
Assistant Vice President
Branch Operations Officer

Starkville Branch

Jay Hines
Vice President, Regional Commercial Lender

Charles Byrd
Vice President, Appraisal Review Officer

Rhonda Edmonson
Assistant Vice President
Branch Operations Officer

Collinsville Branch

Mike Shelby
Vice President

Meridian Eastgate

Charles Young
Vice President, Regional Commercial Lender

Vikki Gunter
Assistant Vice President
Branch Operations Officer

Meridian Broadmoor

Annette Brooks
Assistant Cashier, Branch Operations Officer

Hattiesburg Branch

Travis Moore
Regional President

Chad Hill
Vice President, Branch Manager

Tammy McAlpin
Commercial Loan Portfolio Manager

Flowood Branch

David Peters
Vice President, Mortgage Loan Officer

Biloxi Cedar Lake

Brandon Sherwood
Gulf Coast President

Sharon Pollina
Assistant Vice President
Loan Administration Officer

Tammy Warren
Assistant Vice President
Mortgage Loan Officer

Biloxi Lemoyne

Katie Hancock
Assistant Vice President, Branch Manager

Mortgage Loan Department

Charlene Deweese
Assistant Vice President
Mortgage Loan Officer

BOARD OF DIRECTORS

Don Fulton
Corporate PERT Coordinator
W. G. Yates and Sons Construction Co.

Donald L. Kilgore
Special Assistant Attorney General
State of Mississippi

David A. King
Proprietor
Philadelphia Motor Company

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

Adam Mars
Business Manager
Mars, Mars, Mars & Chalmers

Craig Dungan, MD
Physician
Meridian Gastroenterology PLLC

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

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

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

Terrell E. Winstead
Chief Financial Officer
Molpus Woodlands Group

CITIZENS HOLDING COMPANY OFFICERS

Herbert A. King
Chairman

Greg L. McKee
President and Chief Executive Officer

Mark Taylor
Secretary

Robert T. Smith
Treasurer and Chief Financial Officer

BANKING LOCATIONS**Philadelphia Main Office**

521 Main Street
Philadelphia, MS 39350
601.656.4692

Westside Branch

912 West Beacon Street
Philadelphia, MS 39350
601.656.4692

Northside Branch

802 Pecan Avenue
Philadelphia, MS 39350
601.656.4692

Eastside Branch

599 East Main Street
Philadelphia, MS 39350
601.656.4692

Union Branch

502 Bank Street
Union, MS 39365
601.774.9231

Starkville Branch

201 Highway 12 West
Starkville, MS 39759
662.323.1420

Carthage Main Office

301 West Main Street
Carthage, MS 39051
601.257.4525

Biloxi Cedar Lakes

1765 Popps Ferry Road
Biloxi, MS 39532
228.594.6913

Phone Teller

1.800.397.0344

Collinsville Branch

9065 Collinsville Road
Collinsville, MS 39325
601.626.7608

Flowood Branch

5419 Hwy 25 Ste. Q
Flowood, MS 39232
601.992.7688

Sebastopol Branch

24 Pine Street
Sebastopol, MS 39359
601.625.7447

DeKalb Branch

176 Main Avenue
DeKalb, MS 39328
601.743.2115

Kosciusko Branch

775 North Jackson Street
Kosciusko, MS 39090
662.289.4356

Scooba Branch

27597 Highway 16 East
Scooba, MS 39358
662.476.8431

Meridian Eastgate

1825 Hwy 39 North
Meridian, MS 39301
601.693.8367

Hattiesburg Branch

6222 Highway 98
Hattiesburg, MS 39402
601.264.4425

Internet Banking

<http://www.thecitizensbankphila.com>

Decatur Branch

15330 Hwy 15 South
Decatur, MS 39327
601.635.2321

Forest Branch

247 Woodland Drive North
Forest, MS 39074
601.469.3424

Louisville-Main Branch

100 East Main Street
Louisville, MS 39339
662.773.6261

Noxapater Branch

45 East Main Street
Noxapater, MS 39346
662.724.4261

Louisville-Industrial Branch

803 South Church Street
Louisville, MS 39339
662.773.6261

Biloxi Lemoyne Boulevard

15309 Lemoyne Boulevard
Biloxi, MS 39532
228.207.2343

Meridian Broadmoor

5015 Highway 493
Meridian, MS 39305
601.581.1541

Flowood Branch

5419 Highway 25, Suite Q
Flowood, MS 39232
601.992.7688

FINANCIAL INFORMATION**CORPORATE HEADQUARTERS**

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

601.656.4692

ANNUAL STOCKHOLDER MEETING

The Annual Stockholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 26, 2016, at 4:30 P.M. in the lobby of the main office of The Citizens Bank, 521 Main Street, Philadelphia, Mississippi.

STOCK REGISTRAR AND TRANSFER AGENT

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

FORM 10-K

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

FINANCIAL CONTACT

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

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

Exhibit 21 – Subsidiaries of the Registrant

The following is a list of subsidiaries of the Company:

<u>Subsidiaries</u>	<u>Jurisdiction of Incorporation</u>	<u>Approximate Percentage of Voting Securities Owned</u>
The Citizens Bank of Philadelphia, Mississippi	Mississippi	100%

Exhibit 23

[HORNE LLP LETTERHEAD]

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report on Form 10-K of Citizens Holding Company for the year ended December 31, 2015 and in the Registration Statements on Form S-8 (Nos. 333-89680 and 333-190500) of Citizens Holding Company of our reports dated March 8, 2016 related to our audits of the consolidated financial statements and internal control over financial reporting which appear in the 2015 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Citizens Holding Company for the year ended December 31, 2015.

/s/ HORNE LLP
Ridgeland, Mississippi
March 8, 2016

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Greg L. McKee, certify that:

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

Date: March 8, 2016

by: /s/ Greg L. McKee

Greg L. McKee
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert T. Smith, certify that:

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

Date: March 8, 2016

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the "Company") for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg L. McKee, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

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

Date: March 8, 2016

by: /s/ Greg L. McKee

Greg L. McKee
Chief Executive Officer

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the “Company”) for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert T. Smith, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

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

Date: March 8, 2016

by: /s/ Robert T. Smith

Robert T. Smith
Chief Financial Officer

