

# 2021

## ANNUAL REPORT



Citizens Holding Company<sup>SM</sup>



# STOCKHOLDER LETTER

Dear Stockholder,

2021 began as a year of hope that many areas would see improvement over the previous year. While some things did improve, many families are still dealing with sickness, grief and instability. During this time, we as a company continued to offer support and strength to the communities and people we serve.

I am pleased to be able to present this annual report and summary of the Company's accomplishments for 2021. We experienced several positive trends including earnings growth. Net Income for 2021 increased 8.12% over 2020. This earnings increase was accomplished during a year of strategic balance sheet adjustments. We are now well positioned for any opportunities as they arise.

There are many other financial facts that could be noted here, but you have a very detailed report showing those facts. I would like to acknowledge how pleased I am that our Company still works every day to maintain the level of individual customer service and the broader community service that has been a standard of this Company for many years. It is most gratifying in this digital age that we still have employees that make the effort necessary to ensure that customers' financial needs are met. Whether it be a business owner, a family in need of a home loan or other financial need, we work to meet that need. These multi-generational relationships are a huge strength to our bank.

In a broader sense, I am so thankful that we have employees that are so engaged in the positive efforts in communities throughout the state of Mississippi. Our employees commit untold hours volunteering to many worthwhile projects and endeavors.

It is encouraging to know that even in periods of pandemic isolation and a marketplace of increasing digital presence, we still have employees that will do whatever they can to meet the financial needs of our customers and work for the greater good of our communities. These efforts do not go unnoticed.

As I have stated many times, because we are blessed with great stockholders, great customers and great employees, our Company continues to prosper. I appreciate your continued participation and support in all we do to improve the Company. During 2022, your Board, Officers and Employees will analyze, adapt and work to ensure that we continue to thrive and maximize your investment.

It is an honor to serve all of you and I look forward to the future.

Sincerely,



Greg McKee  
President and CEO



***We take pride in our commitment  
to our communities in Mississippi.***

***Our goal is to provide businesses and families across the state with financial products and services that help them adapt financially in an ever-changing economy. We achieve these goals by building trusted relationships with each customer who chooses to do business with our financial institution.***

# LENDING

## THE CITIZENS WAY



**One of The Citizens Bank's key assets is our talented team of loan officers who live, work, and support the communities they serve.**

Our customers quickly tell us that they value our lenders' relationship-driven, consultative approach to meeting their needs. Most banks offer similar products, services, and interest rates—so developing customized solutions for our customers is the hallmark of The Citizens Bank's seasoned lending team.

Our commercial lending team has been busy working with commercial property owners and investors to provide funds to build residential apartments, condominiums, and retail developments across the state.



**Financing Provided By:**



**The  
Citizens Bank<sup>SM</sup>**

**902 Sisk Avenue Suite E  
Oxford, MS 38655**

**662-550-4029**



OUR BUSINESS COMMUNITY

# COUNTS ON US

**The Small Business Administration announced January 15, 2021, that it would reopen its Paycheck Protection Program to all participating PPP lenders for both first and second-draw applications.**

Our lenders partnered with the federal government to get these new funds to local small business owners as quickly as possible. The Bank processed 609 Paycheck Protection Program loans totaling \$20,512,352 from January until the program ended May 31, 2021.

Our bankers participated in several business development classes offered by The Mississippi Band of Choctaw Indians and East Central Community College. Adult tribal members received training for formulating, writing and executing a business plan with an ultimate goal of assisting in becoming successful future business owners.

- Executive Summary.
- Business description.
- Market Analysis and Strategy.
- Organization and Management Structure.
- Sales Strategies.
- Funding.
- Financial Plan.



## How to Make Owning a Home a Reality

Our mortgage team offered a Bombshell Businesswomen Mortgage Symposium, held at the Bank's community room in Pascagoula, MS.

Tom Graham, Katy Bowyer, and Tammy Sambrano discussed information to help women apply for a mortgage loan.

# COVID

## PRECAUTIONS IN '21

**As 2021 began, we continued to observe many of the safety protocols we implemented in 2020 in effort to slow the spread of Covid 19 and to keep our customers and employees safe.**

In times of normalcy, the customer experience was about interacting face-to-face and giving them the option to use other convenient digital tools. Today, Covid has taught us the importance of educating our customers on every aspect of our self-service banking and ensuring their safety when they choose to come into one of our branch locations to do face-to-face banking.

When vaccines became available, many decided to get vaccinated or to continue wearing masks while taking extra caution to begin the process of getting back some of their freedom of visiting our banking locations and other in-person community activities.

As COVID infection rates decreased, we decided in March to open our lobbies at all our banking locations.

We continue to leverage our digital channels to communicate with and serve our customer's needs.

The safety of our customers and employees is of utmost importance to our organization, and we will continue to take necessary precautions as long as Covid continues to exist.







# GIVING BACK TO OUR COMMUNITIES

**Supporting our communities has always been a top priority for The Citizens Bank, and in 2021 we were able to continue that legacy successfully.**

Our employees proudly support non-profits and community organizations throughout Philadelphia, Biloxi, Carthage, Collinsville, Decatur, DeKalb, Flowood, Forest, Gulfport, Hattiesburg, Kosciusko, Louisville, Meridian, Noxapater, Ocean Springs, Oxford, Pascagoula, Ridgeland, Sebastopol, Scooba, Starkville, and Union.

Employees across the state volunteer hundreds of hours annually serving in different capacities to help raise awareness of needs in their communities. Some of those needs are to make sure families don't suffer from food insecurity and ensure food will be available to those in need.

Other opportunities have been building beds for kids, working in food pantries, purchasing school supplies for needy kids, in addition to working with many other worthy non-profits in their communities.

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***Pictured above:*** Commercial lender Amber Thomas, who works in our Pascagoula branch office, enjoyed helping with the Kiwanis club's pancakes with Santa fundraiser. The pancake breakfast was such a fun and successful event the club is planning on making it an annual event!



United Way of East Mississippi  
 American Red Cross  
 Best Early Education Practices  
 Care Lodge Domestic Violence Shelter  
 Choctaw Area Council of Boy Scouts of  
 American  
 Feed by Faith  
 Girls Scouts of Greater Mississippi  
 God's Closet Philadelphia  
 Hope Village for Children  
 Lauderdale County Habitat for Humanity  
 Love's Kitchen  
 Multi-County Community Service Agency  
 Meridian Freedom Project  
 The Free Clinic of Meridian  
 The Salvation Army  
 Wesley House Community Service Agency  
 Dolly Parton's Imagination Library  
 Stuff The Bus  
 Open Arms Food Pantry Philadelphia  
 United Way of Southeast Mississippi  
 For The Children  
 American Heart Association Jackson  
 Emergency Food and Shelter Philadelphia  
 Congress of Country Music Philadelphia  
 South Lake Food Pantry  
 Lauderdale County 4-H Club  
 Bacot McCarty Foundation  
 Hamas Shriners  
 Lions Club  
 Palmer Home  
 Cans For Kids  
 Make A Wish Foundation  
 Kiwanis Club  
 Rotary Club  
 American Cancer Society  
 Extra Table Food Pantry  
 Allies for Education  
 Gulf Coast Community Foundation  
 Junior Auxiliary  
 Sertoma Club  
 Pink Ribbon Fund  
 YMCA  
 Boys and Girls Club  
 The Partnership Foundation  
 South MS Trail Alliance  
 Meridian Downtown Optimist Club  
 CPC Pregnancy & Family Resource Center  
 Gulfport City Wide Juneteenth Celebration  
 Young Life  
 Meridian Council of the Arts  
 Oxford Ditch Grand Fondo  
 The Phoenix Club  
 Wings Over Winston  
 Collinsville Day  
 Red Hills Festival  
 Center For Hope  
 Friends of Nanih Waiya Community Park  
 Gulf Coast Law Enforcement  
 Grandparents Day



*On October 7, the Ridgeland location partnered with Specialty Hospice for a health fair for the residents of Azalea Christian Manor. The residents could receive financial literacy information, vision, dental screenings, hearing test, and vaccinations.*

*Daniel Webb was chosen to be a 2021 Wish Hero for Make-A-Wish Mississippi. Throughout April, he raised funds for Make-A-Wish Central Mississippi to help grant wishes for children with critical illnesses.*

Make-A-Wish®







The Cruising For A Wish car visited branch locations on October 28. Employees and customers could sign their names on the car for \$1.00. All proceeds go directly to Make-A-Wish Mississippi to provide wishes for critically ill children in Mississippi communities.





# HONORING

## FRONTLINE WORKERS

As we entered 2021 COVID-19 Pandemic was still taxing our front-line workers, the Bank continued to recognize the tireless efforts of doctors, nurses, and staff members at our local community clinics and hospitals in our hometowns. As small tokens of our appreciation, the Bank provided lunches and snacks to be enjoyed by our health care heroes.



# DEDICATION TO EDUCATION

**We continue to partner and support local school districts throughout our markets. Education is essential to the well-being of our children and local communities.**

These students will become future teachers, bankers, welders, nurses, doctors, electricians, engineers, and computer programmers, to name a few possibilities. Education fosters confidence and the ability to succeed. As a community bank, we want to be a part of helping our students and school districts flourish.

The bank offers a full scholarship to students entering East Central Community College; the scholarship recipient is selected by the college.

We donate \$0.05 each time one of the forty-one School Stash debit cards is used in a qualified transaction. In 2021 we donated \$49,773 to participating schools for transactions that were generated by customers using their school's debit card.

We partnered with three new school districts in 2021 to offer school debit cards to our customers, those school are Lafayette County School District, Oxford School District and Regents Academy.



We provided 900-hundred-yard signs to local tribal school students who made all A's and had perfect attendance. These students placed the signs in their front yards.

In addition, we support school academics, athletics, and band programs by purchasing ads and field signs along with monetary donations to help fund school projects.



The Mississippi Bankers Association's "A Banker in Every Classroom" has become an annual tool for our bankers to visit the classrooms in person or by Zoom meetings. They

## CONGRATULATIONS TO THE 2020 / 2021 REWARD A'S SCHOLARSHIP WINNERS

\$1,000 is awarded to each student and \$500 to each school the student attended.

Attala County	Alexis Sanders	Ethel Attendance Center
Forrest County	Kari Snell	Petal High School
Harrison County	Mikayla Snear	O'berville High School
Jackson County	Clay Alford	Ocean Springs High School
Madison County	Rachel Wilson	Ridgeland High School
Kemper County	Cash Wilson	Kemper Academy
Lamar County	Hollie Williamson	Oak Grove High School
Lauderdale County	Kayley DeWeese	West Lauderdale High School
Lafayette County	Madison Parks	Lafayette High School
Leake County	Caitlin McDonald	Leake Academy
Neshoba County	Kelsey Bounds	Neshoba Central High School
Newton County	Alex Sharp	Union High School
Oktibbeha County	Emma Thornton	Starkville Christian School
Rankin County	Barnes Lowry	Jackson Prep
Scott County	Sean Watkins	Lake High School
Winston County	Isaiah Hardin	Louisville High School



We provide sixteen \$1000 Reward A's scholarships annually to students who live in the counties where we have branch locations. We also offered an additional sixteen \$500 donations to each school of the Reward A's scholarship recipient.

provide age-appropriate information to kindergarten through 12th grade students. These financial discussions with students have proven to be an asset to both the students and the bankers. The Banks kids and student savings products has seen an increase since implementing this annual program.

The Bank partnered with the University of Mississippi Foundation to provide summer scholarships to rising high school seniors attending the Summer College program through the Division of Outreach and Continuing Education at the University of Mississippi. Recipients will be selected based on need and must be enrolled in a Mississippi high School. The recipients will be awarded a one-time scholarship in the amount of \$3,000.



Attala County School District



Leake County School District



Choctaw Tribal Schools



Leake Academy



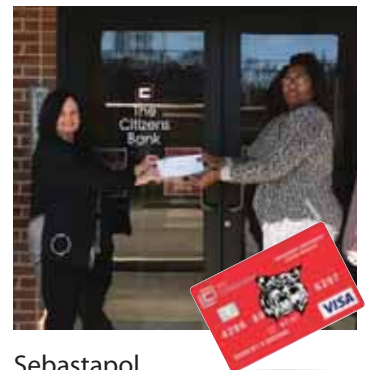
Louisville High School



Noxapater High School



Philadelphia Public Schools District



Sebastapol Attendance Center



Union Public School District



West Lauderdale School



University of Mississippi Foundation



Philadelphia Elementary School





## Manage your books and accept payments **THE EASY WAY.**

The Citizens Bank now offers Autobooks, a banking tool designed to simplify financial management and reporting. Now you can automatically create digital invoices and accept online or electronic payments so you can focus on running and growing your small business without interruption.

This software is a perfect solution if you need a convenient digital tool to manage your business and:

- send a professional invoice right to your customer's inbox;
- create and submit invoices;
- track invoices and expenses;
- simplify accounting and tax prep;
- get paid fast!



The Bank opened its new full-service branch office in Oxford, MS, on January 25, 2021, located at the Terrace at the Oxford Commons 902 Sisk Avenue, Suite E.





# PROTECTING OUR CUSTOMERS

Scott Lewis, Assistant VP & Information Security officer, graduated from FBI Citizens Academy in Jackson, MS, and serves as Secretary on the local FBI Mississippi Infragard Chapter Board.

The FBI National Citizens Academy Alumni Association supports community outreach efforts of the FBI by leading, representing, and serving local FBICAAA Chapters. Our role is three-fold:

- To serve as the official governing organization, interface, and liaison with FBI Headquarters and local Chapters.
- Support excellence in Chapter operations through expert counsel, peer networking, training, and resources.
- Provide governance and compliance oversight of FBINCAAA agreements, policies, and procedures.
- Providing public education programs to raise awareness of community safety issues such as cybercrime, violent extremism, drugs, terrorism, gang activity, public corruption, and other criminal activities.
- Equipping citizens with information, tools, and resources to address public safety issues such as opioid addiction, hate crimes, online scams, human trafficking, and active shooter situations.
- Hosting events and discussions that facilitate collaborative relationships among federal, state, and local law enforcement, and promote positive community and law enforcement relationships.
- Sponsoring community service initiatives to help at risk populations through food drives, clothing donations, childhood reading programs, senior meals, and school supplies.

FBI/Private Sector Infragard - InfraGard is a partnership between the Federal Bureau of Investigation (FBI) and members of the private sector for the protection of U.S. Critical Infrastructure. Through seamless collaboration, InfraGard connects owners and operators within critical infrastructure to the FBI, to provide education, information sharing, networking, and workshops on emerging technologies and threats. InfraGard's membership includes: business executives, entrepreneurs, lawyers, security personnel, military and government officials, IT professionals, academia and state and local law enforcement—all dedicated to contributing industry-specific insight and advancing national security.

**BOARD OF  
DIRECTORS**

**Greg Cronin**  
Gulf Coast President  
The Citizens Bank

**Jane D. Crosswhite**  
Executive Vice President  
Williams Brothers INC.

**Craig Dungan, MD**  
Physician  
Meridian Gastroenterology PLLC

**Donald L. Kilgore**  
Attorney

**David A. King**  
Proprietor  
Philadelphia Motor Company

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

**Adam Mars**  
Business Manager  
Mars, Mars, Mars & Chalmers

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

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

**Terrell E. Winstead**  
Chief Financial Officer  
Molpus Woodlands Group

**Jason Voyles**  
CEO & President  
Spectrum Capital

**BANK  
OFFICERS**

**Greg McKee**  
President  
Chief Executive Officer

**Phillip Branch**  
Senior Vice President  
Chief Financial Officer

**Mark Taylor**  
Senior Vice President  
Chief Operating Officer  
Trust Officer

**Ray Stone**  
Senior Vice President  
Chief Credit Officer

**Liz Owen**  
Senior Vice President  
Director HR  
Chief Risk Officer

**Ledale Reynolds**  
Senior Vice President  
Chief Information Officer

**Jackie Hester**  
Vice President  
Marketing Officer

**Jean Fulton**  
Vice President  
Internal Auditor

**Mark Majure**  
Vice President  
Loan Review Officer

**Bob Posey**  
Vice President  
Loan Officer

**Stacy Arnold**  
Vice President  
Compliance Officer

**Joshua Sullivan**  
Vice President  
Senior Credit Analyst

**Ashley Peebles**  
Vice President  
Director of Deposit Services

**Jamie Shotts**  
Vice President  
Appraisal Review Officer

**Sommer Vick**  
Assistant Vice President  
Accounting Officer  
Asst. Trust Officer

**Mitch Peden**  
Assistant Vice President  
Information Services Manager

**Pat Stokes**  
Assistant Vice President  
Operations Officer

**Scott Lewis**  
Assistant Vice President  
Information Security Officer

**Sam Mars**  
Assistant Vice President  
Loan Officer

**Shon Kirkland**  
Assistant Vice President  
Security Officer  
Facilities Manager

**Charles Wilkerson**  
Assistant Vice President  
Loan Operations Officer

**Grant Comans**  
Assistant Vice President  
Branch Manager

**Cory S. Bass**  
Assistant Vice President  
Accounting Officer

**Pam Lewis**  
Assistant Vice President  
Collections Officer

**Sandra Curtis**  
Assistant Vice President  
Teller Administrator

**Temika Triplett**  
Assistant Vice President  
Electronic Services Officer

**Greg Jackson**  
Accounting Officer

**Reaghan Jenkins**  
Accounting Officer

**Deborah Ladd**  
Item Processing Officer

**Pam Garrett**  
Network Services Manager

**Stacey Chisolm**  
IT Service Desk Manager

**Westside Branch**

**Brice Richardson**  
Vice President  
Branch Manager

**Eastside Branch**

**Brad Copeland**  
Vice President  
Branch Manager

**Carthage Branch**

**Billy Cook**  
Vice President  
Loan Officer

**Tonya J. Dorman**

Deposit Operations Officer

**Sebastopol Branch**

**Connie Comans**  
President  
Loan Officer

**DeKalb & Scooba Branch**

**Reginald Moore**  
Assistant Vice President  
Branch Manager

**Jan White**

Branch Operations Officer

**Decatur Branch**

**Susan Brown**  
Deposit Operations Officer

**Kosciusko Branch**

**Teresa Patterson**  
Vice President  
Branch Manager

**Meridian Eastgate Branch**

**James V. Hines**  
Vice President  
Loan Officer

**Tammara Hopson**

Deposit Operations Officer

**Forest Branch**

**Lawanda McCaughn**  
Deposit Operations Officer

**Louisville, Industrial &  
Noxapater Branch**

**Bruce Lee**  
President  
Loan Officer

**Lynn Graham**

Assistant Vice President  
Branch Operations Officer

**Collinsville Branch**

**Mike Shelby**  
Vice President  
Branch Manager

**Starkville Branch**

**Rhonda Edmonson**  
Assistant Vice President  
Branch Manager

**Flowood Branch**

**George Gammon III**  
Metro Jackson President

**Monica L. Hammack**

Assistant Vice President  
Branch Manager

**Hattiesburg Branch**

**Chad Hill**  
Vice President  
Branch Manager

**Tammy McAlpin**

Commercial Loan  
Portfolio Manager

**Biloxi Cedar Lake Branch**

**Travis Moore**  
Vice President  
Regional Commercial Lender

**Katie Hancock**

Vice President  
Branch Manager

**Biloxi Lemoyne Branch**

**Mandy Dawson**  
Treasury Management Officer

**Oxford Branch**

**Marion Boyd**  
Vice President  
Regional Commercial Lender

**Charles Larry Veasey**

Vice President  
Regional Commercial Lender

**Pascagoula Branch**

**Greg Cronin**  
Gulf Coast President

**Ford Kinsey**

Vice President  
Senior Credit Officer  
Special Assets Officer

**Tabbetha Calvert**

Vice President  
BSA Officer

**Amber Thomas**

Vice President  
Commercial Lender

**Theresa Jenkins**

Community Retail Officer

**Ocean Springs Branch**

**Reagan Bradley**  
Vice President  
Commercial Lender

**Sharon Wetzel**

Vice President  
Information Technology Officer

**Melissa Ceasar**

Community Retail Officer

**Ridgeland Branch**

**Daniel Webb**  
Assistant Vice President  
Loan Officer

**Katrena M. Thompson**

Branch Operations Officer

**Mortgage Loan Division**

**Tom Graham**  
Vice President  
Mortgage Loan Officer  
Gulfport Branch

**Charlene DeWeese**

Assistant Vice President  
Mortgage Loan Officer  
Philadelphia Annex

**Tammy Warren**

Assistant Vice President  
Mortgage Loan Officer  
Biloxi Cedar Lake Branch



## BANKING LOCATIONS

### Philadelphia Main Office

521 Main Street  
Philadelphia, MS 39350  
601.656.4692

### Westside Branch

912 West Beacon Street  
Philadelphia, MS 39350  
601.656.4978

### Northside Branch

802 Pecan Avenue  
Philadelphia, MS 39350  
601.656.4977

### Eastside Branch

599 East Main Street  
Philadelphia, MS 39350  
601.656.4976

### Union Branch

502 Bank Street  
Union, MS 39365  
601.774.9231

### Carthage Branch

301 West Main Street  
Carthage, MS 39051  
601.267.4525

### 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 Hwy 16 East  
Scooba, MS 39358  
662.476.8431

### Meridian Eastgate Branch

1825 Hwy 39 North  
Meridian, MS 39301  
601.693.8367

### 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

906 South Columbus Avenue  
Louisville, MS 39339  
662.773.6261

### Louisville Industrial Branch

1760 South Church Avenue  
Louisville, MS 39339  
662.773.6261

### Noxapater Branch

45 East Main Street  
Noxapater, MS 39346  
662.724.4261

### Collinsville Branch

9065 Collinsville Road  
Collinsville, MS 39325  
601.626.7608

### Starkville Branch

201 Hwy 12 West  
Starkville, MS 39759  
662.323.1420

### Flowood Branch

2845 Lakeland Drive  
Flowood, MS 39232  
601.992.7688

### Hattiesburg Branch

6222 Highway 98  
Hattiesburg, MS 39402  
601.264.4425

### Biloxi Cedar Lake Branch

1830 Popps Ferry RD  
Biloxi, MS 39532  
228.594.6913

### Lemoyne Blvd. Branch

15309 Lemoyne Boulevard  
Biloxi, MS 39532  
228.207.2343

### Oxford Branch

902 Sisk Avenue, Suite E  
Oxford, MS 38655  
662.550.4029

### Ocean Springs Branch

2702 Bienville Boulevard  
Ocean Springs, MS 39564  
228.875.3933

### Pascagoula Branch

1519 Jackson Avenue  
Pascagoula, MS 39567  
228.762.3330

### Gulfport Branch

12008 Highway 49  
Gulfport, MS 39503  
228.831.3535

### Ridgeland Branch

320 Highway 51 North  
Ridgeland, MS 39157  
601.519.4020

### Phone Teller

800.397.0344

### Internet Banking

[www.thecitizensbankphila.com](http://www.thecitizensbankphila.com)



# 2021

## FINANCIAL STATEMENT



Citizens Holding Company<sup>SM</sup>





**CITIZENS HOLDING COMPANY**

Philadelphia, Mississippi

Consolidated Financial Statements

As of December 31, 2021 and 2020 and for the  
Years Ended December 31, 2021, 2020 and 2019

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Citizens Holding Company

### Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Citizens Holding Company and subsidiary (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated financial statements (collectively, referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, are in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below,



providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

### Allowance for Loan Losses

As described in Notes 1 and 6 to the financial statements, the Company's allowance for loan losses, ("allowance"), is a valuation allowance that reflects the Company's estimation of incurred losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The allowance for loan losses was \$4,513,000 at December 31, 2021, which consists of two components; the allowance for loans individually evaluated for impairment ("specific reserves") and the allowance for loans collectively evaluated for impairment ("general reserves").

The Company's general reserves include reserves based on historical charge-off factors and qualitative general reserve factors. The component for qualitative general reserve factors involves an evaluation of items which are not yet reflected in the factors for historical charge-offs including changes in: lending policies and procedures, economic and business conditions, nature and volume of the portfolio, lending staff, volume and severity of delinquent loans, loan review systems, collateral values, and concentrations of credit. The evaluation of these items results in qualitative general reserve factors, which contribute significantly to the general reserve component of the estimate of the allowance for loan losses.

We identified management's estimate of the aggregate effect of the qualitative reserve factors on the allowance for loan losses as a critical audit matter as it involved subjective auditor judgment. Management's determination of qualitative general reserve factors involved especially subjective judgment because management's estimate relies on qualitative analysis to determine the quantitative impact the items have on the allowance.

The primary procedures we performed to address this critical audit matter included:

Evaluated the design and tested the operating effectiveness of controls over the determination of items used to estimate the qualitative general reserve factors, including controls addressing:

- The data used as the basis for the adjustments relating to qualitative general reserve factors.
- Management's determination of loans excluded from qualitative general reserve factors calculation.
- Management's review of the qualitative and quantitative conclusions related to the qualitative general reserve factors and the resulting allocation to the allowance.

Substantively tested the general reserves related to qualitative general reserve factors which primarily included:

- Evaluation of the completeness and accuracy of data inputs used as a basis for the adjustments relating to the qualitative general reserve factors.
- Evaluation of loans excluded from the qualitative general reserve calculation for propriety of classification.

Evaluation of the reasonableness of management's judgments related to the qualitative and quantitative assessment of the data used in the determination of qualitative general reserve factors and the resulting allocation to the allowance. Our evaluation considered the weight of confirming and disconfirming evidence from internal and external sources, loan portfolio performance and third-party data, and whether management's assumptions were applied consistently period to period.

*HORNE LLP*

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

Memphis, Tennessee

March 11, 2022



The Citizens Holding Company<sup>inc</sup>

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

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

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

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



Management, with the participation of the Company's principal executive officer and principal financial officer, conducted an assessment of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2021, based on criteria for effective internal control over financial reporting described in the "Internal Control – Integrated Framework," (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2021, the Company's system of internal control over financial reporting was effective.



Greg L. McKee  
President and Chief Executive Officer



Phillip R. Branch  
Treasurer and Chief Financial Officer

March 11, 2022

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Financial Condition  
December 31, 2021 and 2020  
(in thousands, except share data)

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
Cash and due from banks	\$ 10,673	\$ 16,840
Interest bearing deposits with other banks	68,563	25,468
Cash and cash equivalents	79,236	42,308
Securities available for sale, at fair value	631,835	678,749
Loans held for investment (LHFI), net of unearned income	571,847	652,256
Less allowance for loan losses, LHFI	4,513	4,735
Net LHFI	567,334	647,521
Bank premises, furniture, fixtures and equipment, net	26,661	25,630
Other real estate owned, net	2,475	3,073
Accrued interest receivable	4,171	5,983
Cash surrender value of life insurance	25,679	25,814
Deferred tax assets, net	6,279	1,548
Identifiable intangible assets, net	13,551	13,660
Other assets	4,088	6,406
<b>Total assets</b>	<b>\$ 1,361,309</b>	<b>\$ 1,450,692</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing deposits	\$ 302,707	\$ 276,033
Interest bearing deposits	809,185	819,156
<b>Total deposits</b>	<b>1,111,892</b>	<b>1,095,189</b>
Securities sold under agreement to repurchase	112,760	196,272
Federal Home Loan Bank (FHLB) advances	-	25,000
Borrowings on secured line of credit	18,000	-
Accrued interest payable	328	522
Deferred compensation payable	9,543	9,665
Other liabilities	2,886	4,496
<b>Total liabilities</b>	<b>1,255,409</b>	<b>1,331,144</b>
Shareholders' equity		
Common stock, \$.20 par value, authorized 22,500,000 shares;		
5,595,320 shares issued and outstanding at December 31, 2021 and		
5,587,070 shares issued and outstanding at December 31, 2020	1,120	1,118
Additional paid-in capital	18,293	18,134
Accumulated other comprehensive (loss) income, net of tax benefit (expense)		
of \$3,921 in 2021 and (\$1,376) in 2020	(11,795)	4,138
Retained earnings	98,282	96,158
<b>Total shareholders' equity</b>	<b>105,900</b>	<b>119,548</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,361,309</b>	<b>\$ 1,450,692</b>

The accompanying notes are an integral part of these statements.

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Income  
Years Ended December 31, 2021, 2020, and 2019  
(in thousands, except share and per share data)

	2021	2020	2019
Interest income			
Interest and fees on loans	\$ 31,207	\$ 30,941	\$ 24,652
Interest on securities			
Taxable	4,440	7,837	7,993
Non-taxable	2,800	1,501	1,808
Other interest	62	282	908
Total interest income	38,509	40,561	35,361
Interest expense			
Deposits	4,260	6,556	7,719
Other borrowed funds	755	871	2,003
Total interest expense	5,015	7,427	9,722
Net interest income	33,494	33,134	25,639
Provision for loan losses	1,409	1,485	573
Net interest income after provision for loan losses	32,085	31,649	25,066
Non-interest income			
Service charges on deposit accounts	3,499	3,352	4,413
Other service charges and fees	4,281	3,606	3,129
Net gains on sales of securities	1,378	829	191
Other income	3,030	2,673	2,015
Total non-interest income	12,188	10,460	9,748
Non-interest expense			
Salaries and employee benefits	18,460	17,476	14,883
Occupancy expense	3,193	3,105	2,593
Equipment expense	3,942	4,255	2,652
Other real estate expense	914	230	-
Other expense	8,839	8,360	7,430
Total non-interest expense	35,348	33,426	27,558
Income before income taxes	8,925	8,683	7,256
Income tax expense	1,431	1,752	1,354
Net income	\$ 7,494	\$ 6,931	\$ 5,902
Net income per share – basic	\$ 1.34	\$ 1.24	\$ 1.17
Net income per share – diluted	\$ 1.34	\$ 1.24	\$ 1.17
Weighted average shares outstanding			
Basic	5,584,396	5,577,352	5,063,736
Diluted	5,584,483	5,579,916	5,066,103

The accompanying notes are an integral part of these statements.



**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Comprehensive (Loss) Income  
Years Ended December 31, 2021, 2020, and 2019  
(in thousands)

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net income	\$ 7,494	\$ 6,931	\$ 5,902
Other comprehensive (loss) income			
Unrealized holding (losses) gains on available-for-sale securities	(22,608)	5,736	18,711
Income tax effect	5,641	(1,431)	(4,668)
Net unrealized (losses) gains	<u>(16,967)</u>	<u>4,305</u>	<u>14,043</u>
Reclassification adjustment for gains included in net income	1,378	829	191
Income tax effect	(344)	(207)	(48)
Net gains included in net income	<u>1,034</u>	<u>622</u>	<u>143</u>
Total other comprehensive (loss) income	<u>(15,933)</u>	<u>4,927</u>	<u>14,186</u>
Comprehensive (loss) income	<u>\$ (8,439)</u>	<u>\$ 11,858</u>	<u>\$ 20,088</u>

The accompanying notes are an integral part of these statements.

**CITIZENS HOLDING COMPANY**

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2021, 2020, and 2019

(in thousands, except share data)

	<b>Number of Shares Issued</b>	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance, January 1, 2019	4,904,530	\$ 981	\$ 4,298	\$ (14,975)	\$ 93,562	\$ 83,866
Net income	-	-	-	-	5,902	5,902
Dividends paid (\$0.96 per share)	-	-	-	-	(4,874)	(4,874)
Common stock issued in connection with acquisition	666,101	133	13,424	-	-	13,557
Restricted stock granted	7,500	2	(2)	-	-	-
Stock compensation expense	-	-	163	-	-	163
Other comprehensive income, net	-	-	-	14,186	-	14,186
Balance, December 31, 2019	5,578,131	1,116	17,883	(789)	94,590	112,800
Net income	-	-	-	-	6,931	6,931
Dividends paid (\$0.96 per share)	-	-	-	-	(5,363)	(5,363)
Options exercised	5,189	1	85	-	-	86
Restricted stock granted	8,250	2	(2)	-	-	-
Restricted stock forfeited	(4,500)	(1)	1	-	-	-
Stock compensation expense	-	-	167	-	-	167
Other comprehensive income, net	-	-	-	4,927	-	4,927
Balance, December 31, 2020	5,587,070	1,118	18,134	4,138	96,158	119,548
Net income	-	-	-	-	7,494	7,494
Dividends paid (\$0.96 per share)	-	-	-	-	(5,370)	(5,370)
Restricted stock granted	8,250	2	(2)	-	-	-
Stock compensation expense	-	-	161	-	-	161
Other comprehensive loss, net	-	-	-	(15,933)	-	(15,933)
Balance, December 31, 2021	5,595,320	1,120	18,293	(11,795)	98,282	105,900

The accompanying notes are an integral part of these statements.

**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2021, 2020, and 2019  
1 of 2  
(in thousands)

	2021	2020	2019
Cash flows from operating activities			
Net income	\$ 7,494	\$ 6,931	\$ 5,902
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,173	1,121	912
Amortization of premiums and accretion of discounts on investment securities, net	6,629	7,286	5,294
Stock compensation expense	161	167	163
Provision for loan losses	1,409	1,485	573
Gain on sale of securities	(1,378)	(829)	(191)
Gain from death benefit proceeds on BOLI	(357)	-	(371)
Loss (gain) on sale of fixed assets	13	(74)	-
Net gain on sale of other real estate owned	(323)	(105)	(311)
Deferred income tax expense	566	498	459
Writedown on other real estate owned	914	230	-
Decrease (increase) in accrued interest receivable	1,812	(1,802)	382
Increase in cash surrender value life insurance	(670)	(726)	(709)
(Decrease) increase in accrued interest payable	(194)	(606)	166
(Decrease) increase in deferred compensation liability	(122)	212	400
Net change in other operating assets and liabilities	364	255	828
Net cash provided by operating activities	17,491	14,043	13,497
Cash flows from investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	150,879	237,705	59,189
Proceeds from sales of securities available-for-sale	500,685	188,324	122,171
Proceeds from sale of FHLB stock	4,447	2,913	-
Purchases of investment securities available-for-sale	(631,131)	(640,289)	(160,591)
Decrease (increase) in federal funds sold	-	1,600	(1,600)
Death benefit proceeds from bank-owned life insurance	1,162	-	1,549
Purchases of bank premises, furniture, fixtures and equipment	(2,599)	(2,019)	(1,042)
Proceeds from sales of bank premises, furniture, fixtures and equipment	492	124	-
Proceeds from sale of other real estate owned	3,257	1,899	584



**CITIZENS HOLDING COMPANY**  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2021, 2020, and 2019  
2 of 2  
(in thousands)

	2021	2020	2019
Net cash paid in acquisition of business	-	-	(317)
Purchases of FHLB stock	(4,103)	(1,025)	-
Net change in loans	75,527	(77,239)	(44,678)
Net cash provided by (used in) investing activities	98,616	(288,007)	(24,735)
Cash flows from financing activities			
Net change in deposits	\$ 16,703	\$ 196,193	\$ 16,459
Net (decrease) increase in securities sold under agreement to repurchase	(83,512)	25,862	62,444
Proceeds from borrowings on secured line of credit	18,000	-	-
Proceeds from exercise of stock options	-	86	-
Dividends paid to shareholders	(5,370)	(5,363)	(4,874)
Net (decrease) increase in FHLB advances	(25,000)	25,000	(8,969)
Net cash (used in) provided by financing activities	(79,179)	241,778	65,060
Net increase (decrease) in cash and due from banks	36,928	(32,186)	53,822
Cash and cash equivalents, beginning of year	42,308	74,494	20,672
Cash and cash equivalents, end of year	\$ 79,236	\$ 42,308	\$ 74,494
Supplemental disclosures of cash flow information			
Cash paid for			
Interest	\$ 5,209	\$ 8,033	\$ 9,065
Income taxes	\$ 515	\$ 1,539	\$ 685
Noncash disclosures			
Issuance of common stock for acquisition of business	\$ -	\$ -	\$ 13,557
Real estate acquired by foreclosure	\$ 3,250	\$ 1,546	\$ 385

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

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Nature of Business and Summary of Significant Accounting Policies**

*(in thousands, except share and per share data)*

Nature of Business

Citizens Holding Company (referred to herein as the “Company”) owns and operates The Citizens Bank of Philadelphia (the “Bank”). In addition to full service commercial banking, the Bank offers title insurance services through its affiliate, Title Services LLC. 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 Mississippi, along with southern and northern counties of Mississippi and their surrounding areas. Services are provided at multiple branch offices.

Basis of Financial Statement Presentation

The accounting policies of the 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 the Company include the accounts of the Bank and its affiliate (collectively, the “Company”). All significant intercompany transactions have been eliminated in consolidation.

Segment Reporting

We have determined that all of our lending divisions meet the aggregation criteria of ASC 280, Segment Reporting, since all offer similar products and services, operate with similar processes, have similar customers and are collectively reviewed by the chief operating decision maker. No other services are material for presentation as a separate segment.

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.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

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.

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. Effective March 26, 2020, the Federal Reserve reduced reserve requirement ratios to zero percent, eliminating the reserve requirements for all depository institutions, in order to provide liquidity in the banking system to support lending to households and businesses due to the COVID-19 pandemic.

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 held to maturity or trading securities.

Securities Available-for-Sale

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

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

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.

LHFI and Allowance for Loan Losses

LHFI are 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.

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



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

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 substandard loan relationships with balances over \$100, specific reserves on an individual loan basis may be applied. The specific reserve is then added to the general reserve calculated using the model. The general reserve is calculated only on loans that have not been individually assessed for a specific reserve. 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.

Business Combinations, Accounting for Credit-Deteriorated Purchased Loans and Related Assets

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, “Business Combinations.” Under the acquisition method, identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values as of that date and are recognized separately from goodwill. Results of operations of the acquired entities are included in the Consolidated Statements of Income from the date of acquisition. Acquisition costs incurred by the Company are expensed as incurred.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Loans purchased in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit-impaired. Purchased credit deteriorated loans are accounted for in accordance with ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”), and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Increases in expected cash flows to be collected on these loans are recognized as an adjustment of the loan’s yield over its remaining life, while decreases in expected cash flows are recognized as an impairment.

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.

Leases

ASU 2016-02, “Leases (Topic 842),” became effective for the Company on January 1, 2019. The Company adopted FASB ASC Topic 842 utilizing the modified retrospective transition approach prescribed by ASU 2018-11, “Leases (Topic 842): Targeted Improvements”. The Company did not elect to adopt the package of practical expedients, which includes reassessing whether any expired or existing contracts are or contain leases, reassessing the lease classification and reassessing initial direct costs. Also, the Company did not elect to adopt the hindsight practical expedient therefore maintaining the lease terms previously determined under FASB ASC Topic 840, “Leases”. The Company made an accounting policy election to not recognize short-term leases (12 months or less) on the balance sheet. The Company accounts for the lease and nonlease components separately as such amounts are readily determinable.

Once the Company identifies and determines certain contracts are leases according to FASB ASC Topic 842, the Company classifies it as an operating or a finance lease and recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability represents the present value of the lease payments that remain unpaid as of the commencement date and the right-of-use asset is the initial lease liability recognized for the lease plus any lease payments made to the lessor at or before the commencement date as well as any initial direct costs less any lease incentives received.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

The Company's operating leases primarily consist of building and land leases. The Company recognizes lease rent expense on a straight-line basis over the term of the lease contract and records it as noninterest expense in net occupancy – premises for building and land leases. The Company's amortization of the right-of-use asset is the difference between the straight-line lease expense and the interest expense recognized on the lease liability during the period. The Company's lease liabilities are measured as the present value of the remaining lease payments throughout the lease term.

In order to calculate its right-of-use assets and lease liabilities, FASB ASC Topic 842 requires the Company to use the rate of interest implicit in the lease when readily determinable. If the rate implicit in the lease is not readily determinable, the Company is required to use its incremental borrowing rate, which is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. Since the implicit interest rate for most of its building and land leases were not readily determinable, the Company used its incremental borrowing rate.

The Company's short-term leases primarily include automated teller machines. For short-term leases, the Company recognizes lease expense on a straight-line basis over the lease term. As previously stated, the Company has elected not to include short-term leases on its balance sheet.

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.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Intangible Assets

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

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



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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 2021, 2020 and 2019 is illustrated in the following table.

	2021	2020	2019
Basic weighted average shares outstanding	5,584,396	5,577,352	5,063,736
Dilutive effect of stock options	87	2,564	2,367
Dilutive weighted average shares outstanding	<u>5,584,483</u>	<u>5,579,916</u>	<u>5,066,103</u>
Net income	<u>\$ 7,494</u>	<u>\$ 6,931</u>	<u>\$ 5,902</u>
Net income per share-basic	\$ 1.34	\$ 1.24	\$ 1.17
Net income per share-diluted	\$ 1.34	\$ 1.24	\$ 1.17

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was \$573, \$642 and \$551 for the years ended December 31, 2021, 2020 and 2019, 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 2020 has been reclassified to conform to the financial presentation for 2021. Such reclassifications had no effect on net income or shareholders' equity.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Stock-Based Compensation

At December 31, 2021, the Company had outstanding grants under two stock-based compensation plans, which are the 1999 Directors' Stock Compensation Plan and the 2013 Incentive Compensation Plan. Compensation expense for option grants and restricted stock awards is determined based on the estimated fair value of the stock options and restricted stock on the applicable grant or award date. The Company has elected to account for forfeitures in compensation cost when they occur as permitted under the guidance in ASC 718, "Compensation - Stock Compensation" ("ASC 718"). Expense associated with the Company's stock-based compensation is included under the line item "Salaries and benefits" on the Consolidated Statements of Income. The Company recognizes compensation expense for all share-based payments to employees in accordance with ASC 718, "Compensation – Stock Compensation."

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, 2021 but prior to the issuance of these financial statements that would have a material impact on its Consolidated Financial Statements.

Adoption of New Accounting Standards

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes to simplify various aspects of the current guidance to promote consistent application of the standard among reporting entities by moving certain exceptions to the general principles. ASU 2019-12 was effective for the Company on January 1, 2021 and did not have a material impact on the Company's financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1. Continued**

Newly Issued, But Not Yet Effective Accounting Standards

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” (“ASU 2016-13”). ASU 2016-13 makes significant changes to the accounting for credit losses on financial instruments and disclosures about them. The new current expected credit loss (CECL) impairment model will require an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics, determining the contractual terms of said financial assets and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 were originally effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. However, in October 2019, the FASB approved deferral of the effective date for ASU 2016-13 for certain companies.

The new effective date for the Company is January 1, 2023. ASU 2016-13 permits the use of estimation techniques that are practical and relevant to the Company’s circumstances, as long as they are applied consistently over time and faithfully estimate expected credit losses in accordance with the standard. The ASU lists several common credit loss methods that are acceptable such as a discounted cash flow method, loss-rate method and probability of default/loss given default (PD/LGD) method. Depending on the nature of each identified pool of financial assets with similar risk characteristics, the Company currently plans on implementing a PD/LGD method or a loss-rate method to estimate expected credit losses. The Company expects ASU 2016-13 to have a significant impact on the Company’s accounting policies, internal controls over financial reporting and footnote disclosures. The Company has assessed its data and system needs and has begun designing its financial models to estimate expected credit losses in accordance with the standard. Further development, testing and evaluation of said models is required to determine the impact that adoption of this standard will have on the financial condition and results of operations of the Company.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2. Investment Securities**

*(in thousands)*

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 (loss) income at December 31, 2021 and 2020 were as follows:

<b>2021</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Securities available-for-sale				
Obligations of U.S.				
Government agencies	\$ 4,969	\$ -	\$ 269	\$ 4,700
Mortgage-backed securities	411,729	42	12,180	399,591
State, County, Municipals	230,359	700	4,008	227,051
Other securities	500	-	7	493
Total	<u>\$ 647,557</u>	<u>\$ 742</u>	<u>\$ 16,464</u>	<u>\$ 631,835</u>

<b>2020</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Securities available-for-sale				
Obligations of U.S.				
Government agencies	\$ 11,870	\$ 191	\$ -	\$ 12,061
Mortgage-backed securities	560,033	4,550	2,600	561,983
State, County, Municipals	100,823	3,410	36	104,197
Other securities	500	8	-	508
Total	<u>\$ 673,226</u>	<u>\$ 8,159</u>	<u>\$ 2,636</u>	<u>\$ 678,749</u>

The following tables show the gross unrealized losses and fair value of the Company's investments classified as AFS investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2. Continued**

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

December 31, 2021	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S.						
Government agencies	\$ 4,700	\$ 269	\$ -	\$ -	\$ 4,700	\$ 269
Mortgage backed securities	376,644	11,535	19,986	645	396,630	12,180
State, County, Municipal	175,520	3,997	1,119	11	176,639	4,008
Total	\$ 556,864	\$ 15,801	\$ 21,105	\$ 656	\$ 577,969	\$ 16,457

December 31, 2020	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage backed securities	\$ 278,162	\$ 2,600	\$ -	\$ -	\$ 278,162	\$ 2,600
State, County, Municipal	6,541	36	-	-	6,541	36
Total	\$ 284,703	\$ 2,636	\$ -	\$ -	\$ 284,703	\$ 2,636

The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. The Company does not intend to sell any of the securities in an unrealized loss position, and it is more likely than not that the Company will not be required to sell any such security prior to the recovery of its amortized cost basis, which may be at maturity. None of the unrealized losses disclosed in the previous table are related to credit deterioration. As such, the Company did not record any other-than-temporary impairment for the years ended December 31, 2021 or 2020.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2. Continued**

The amortized cost and estimated fair value of securities at December 31, 2021, 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.

	<b>Amortized Cost</b>	<b>Fair Value</b>
Securities AFS		
Due in one year or less	\$ 216	\$ 217
Due after one year through five years	1,895	1,924
Due after five years through ten years	4,226	4,287
Due after ten years	229,491	225,816
Residential mortgage backed securities	332,779	323,736
Commercial mortgage backed securities	78,950	75,855
	<u>647,557</u>	<u>631,835</u>
Total	<u>\$ 647,557</u>	<u>\$ 631,835</u>

Investment securities with carrying amounts of \$371,190 and \$558,955 at December 31, 2021 and December 31, 2020, respectively, were pledged as collateral for public deposits and securities sold under agreement to repurchase.

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Gross realized gains	\$ 4,257	\$ 1,656	\$ 414
Gross realized losses	2,879	827	223
	<u>1,378</u>	<u>829</u>	<u>191</u>
Net realized gains	<u>\$ 1,378</u>	<u>\$ 829</u>	<u>\$ 191</u>

**Note 3. Federal Home Loan Bank Stock**

*(in thousands)*

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 \$889 and \$1,223 at December 31, 2021 and December 31, 2020, respectively, and is included in other assets in the Consolidated Statements of Financial Condition. The Company purchased stock in 2021 and 2020 at the par value of \$100 per share.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Non Purchased Loans**

*(In Thousands, Except Number of Loans)*

“Purchased” loans are those acquired in any of the Company’s previous acquisitions. “Non purchased” loans include all of the Company’s other loans. For purposes of this Note 4, all references to “loans” mean non purchased loans and include in LHFI in the consolidated statements of financial condition.

The composition of LHFI, net at December 31, 2021 and 2020 is as follows:

	2021 <sup>(1)</sup>	2020
Real Estate:		
Land Development and Construction	\$ 71,898	\$ 42,677
Farmland	13,114	15,616
1-4 Family Mortgages	98,525	94,280
Commercial Real Estate	281,239	306,875
Total Real Estate Loans	464,776	459,448
Business Loans:		
Commercial and Industrial Loans <sup>(2)</sup>	92,501	115,679
Farm Production and Other Farm Loans	621	541
Total Business Loans	93,122	116,220
Consumer Loans:		
Credit Cards	1,963	1,878
Other Consumer Loans	11,986	10,929
Total Consumer Loans	13,949	12,807
Total Gross Loans	571,847	588,475
Unearned Income	-	(1)
Allowance for Loan Losses	(4,513)	(4,735)
Loans, net	\$ 567,334	\$ 583,739

(1) Reclassifications from acquired loans to loans held for investment.

(2) Includes Paycheck Protection Program ("PPP") loans of \$5,789 and \$29,523 as of December 31, 2021 and December 31, 2020, r

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 4. Continued**

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.

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. Residential 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 \$105,251 and \$88,986 of the loans outstanding at December 31, 2021 and 2020, respectively, were variable rate loans.

In the ordinary course of business, the Company has granted loans to certain directors, significant shareholders 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 2021 is presented in the following table.

Balance outstanding at December 31, 2020	\$	846
Principal additions		3,061
Principal reductions		<u>(24)</u>
Balance outstanding at December 31, 2021	\$	<u><u>3,883</u></u>



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 4. Continued**

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.

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

	2021	2020
Real Estate:		
Land Development and Construction	\$ 171	\$ 308
Farmland	118	287
1-4 Family Mortgages	1,891	1,809
Commercial Real Estate	1,249	5,600
Total Real Estate Loans	3,429	8,004
Business Loans:		
Commercial and Industrial Loans	386	413
Farm Production and Other Farm Loans	3	9
Total Business Loans	389	422
Consumer Loans:		
Other Consumer Loans	8	33
Total Consumer Loans	8	33
Total non-accrual Loans	\$ 3,826	\$ 8,459

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 \$281, \$383 and \$555 in 2021, 2020 and 2019, respectively.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2021 is as follows:

	Loans			Accruing Loans		
	Loans 30-89 Days	Loans 90 or more Days	Total Past Due Loans	Current Loans	Total Loans	90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 6	\$ -	\$ 6	\$ 71,892	\$ 71,898	\$ -
Farmland	130	33	163	12,951	13,114	-
1-4 Family Mortgages	1,678	292	1,970	96,555	98,525	140
Commercial Real Estate	157	570	727	280,512	281,239	-
Total Real Estate Loans	1,971	895	2,866	461,910	464,776	140
Business Loans:						
Commercial and Industrial Loans	205	376	581	91,920	92,501	-
Farm Production and Other Farm Loans	3	-	3	618	621	-
Total Business Loans	208	376	584	92,538	93,122	-
Consumer Loans:						
Credit Cards	35	12	47	1,916	1,963	12
Other Consumer Loans	76	2	78	11,908	11,986	2
Total Consumer Loans	111	14	125	13,824	13,949	14
Total Loans	\$ 2,290	\$ 1,285	\$ 3,575	\$ 568,272	\$ 571,847	\$ 154

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2020 is as follows:

	Loans			Accruing Loans		
	Loans	90 or more		Loans	90 or more	
	30-89 Days	Days	Total Past	Current	Total	Days
	Past Due	Past Due	Due Loans	Loans	Loans	Past Due
Real Estate:						
Land Development and Construction	\$ 112	\$ -	\$ 736	\$ 65,692	\$ 42,677	\$ -
Farmland	183	75	210	15,385	15,616	-
1-4 Family Mortgages	1,301	246	3,893	83,738	94,280	-
Commercial Real Estate	1,407	700	10,591	197,013	306,875	-
Total Real Estate Loans	3,003	1,021	15,430	361,828	459,448	-
Business Loans:						
Commercial and Industrial Loans	97	405	502	115,177	115,679	5
Farm Production and Other Farm Loans	2	-	2	539	541	-
Total Business Loans	99	405	504	115,716	116,220	5
Consumer Loans:						
Credit Cards	25	9	34	1,844	1,878	9
Other Consumer Loans	66	-	66	10,863	10,929	-
Total Consumer Loans	91	9	100	12,707	12,807	9
Total Loans	\$ 3,193	\$ 1,435	\$ 16,034	\$ 490,251	\$ 588,475	\$ 14

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Continued**

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all the amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. In determining which loans to evaluate for impairment, management looks at past due loans, bankruptcy filings and any situation that might lend itself to cause a borrower to be unable to repay the loan according to the original contract terms on those loans in excess of \$100. 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:

		Unpaid	Recorded	Recorded	Total		Average
	2021	Principal	Investment	Investment	Recorded	Related	Recorded
		Balance	With No	With	Investment	Allowance	Investment
			Allowance	Allowance			
Real Estate:							
Land Development and Construction		\$ 171	\$ 171	\$ -	\$ 171	\$ -	\$ 240
Farmland		33	33	-	33	-	72
1-4 Family Mortgages		767	767	-	767	-	892
Commercial Real Estate		1,294	1,019	112	1,131	3	3,479
Total Real Estate Loans		2,265	1,990	112	2,102	3	4,683
Business:							
Commercial and Industrial		304	72	160	232	36	323
Total Business Loans		304	72	160	232	36	323
Total Loans		\$ 2,569	\$ 2,062	\$ 272	\$ 2,334	\$ 39	\$ 5,006

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 4. Continued**

		Unpaid	Recorded	Recorded	Total	Related	Average
	2020	Principal	Investment	Investment	Recorded	Allowance	Recorded
		Balance	With No	With	Investment		Investment
			Allowance	Allowance			
Real Estate:							
Land Development and Construction		\$ 308	\$ 256	\$ 52	\$ 308	\$ 13	\$ 210
Farmland		111	111	-	111	-	182
1-4 Family Mortgages		1,016	1,012	4	1,016	1	928
Commercial Real Estate		6,021	3,323	2,504	5,827	768	7,808
Total Real Estate Loans		7,456	4,702	2,560	7,262	782	9,128
Business:							
Commercial and Industrial		413	54	359	413	125	279
Total Business Loans		413	54	359	413	125	279
Total Loans		\$ 7,869	\$ 4,756	\$ 2,919	\$ 7,675	\$ 907	\$ 9,407



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 4. Continued**

The Company did not have any new troubled debt restructurings as of December 31, 2021, 2020, and 2019, respectively.

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

	Number of Loans	Recorded Investment
Total at January 1, 2019	3	\$ 2,782
Reductions due to:		
Principal paydowns		(287)
Total at December 31, 2019	3	2,495
Reductions due to:		
Principal paydowns		(382)
Total at December 31, 2020	3	2,113
Reductions due to:		
Reclassification to OREO	2	(1,788)
Principal paydowns		(112)
Total at December 31, 2021	1	\$ 213

The allocated allowance for loan losses attributable to restructured loans was \$-0- at December 31, 2021 and 2020, respectively.

The Company had no commitments to lend additional funds on these troubled debt restructurings at December 31, 2021.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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 not align with peers.

Grade 5. MANAGEMENT ATTENTION - Borrower has potential 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 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.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 4. Continued**

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

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, 2021.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**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, 2021:

	Satisfactory	Special Mention	Substandard	Doubtful	Loss	Total Loans
	1,2,3,4	5,6	7	8	9	
Real Estate:						
Land Development and Construction	\$ 69,758	\$ 1,547	\$ 593	\$ -	\$ -	\$ 71,898
Farmland	12,365	297	452	-	-	13,114
1-4 Family Mortgages	89,120	3,590	5,815	-	-	98,525
Commercial Real Estate	238,561	8,055	34,623	-	-	281,239
Total Real Estate Loans	409,804	13,489	41,483	-	-	464,776
Business Loans:						
Commercial and Industrial Loans	85,138	1,483	5,877	-	3	92,501
Farm Production and Other Farm Loans	606	-	12	-	3	621
Total Business Loans	85,744	1,483	5,889	-	6	93,122
Consumer Loans:						
Credit Cards	1,916	-	47	-	-	1,963
Other Consumer Loans	11,903	20	58	3	2	11,986
Total Consumer Loans	13,819	20	105	3	2	13,949
Total Loans	\$ 509,367	\$ 14,992	\$ 47,477	\$ 3	\$ 8	\$ 571,847

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**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, 2020:

	Satisfactory	Special Mention	Substandard	Doubtful	Loss	Total Loans
	1,2,3,4	5,6	7	8	9	
Real Estate:						
Land Development and Construction	\$ 41,775	\$ 120	\$ 782	\$ -	\$ -	\$ 42,677
Farmland	14,801	95	720	-	-	15,616
1-4 Family Mortgages	85,203	3,210	5,867	-	-	94,280
Commercial Real Estate	258,339	35,769	12,767	-	-	306,875
Total Real Estate Loans	400,118	39,194	20,136	-	-	459,448
Business Loans:						
Commercial and Industrial Loans	109,525	4,409	1,738	-	7	115,679
Farm Production and Other Farm Loans	512	-	20	-	9	541
Total Business Loans	110,037	4,409	1,758	-	16	116,220
Consumer Loans:						
Credit Cards	1,845	-	33	-	-	1,878
Other Consumer Loans	10,820	43	41	25	-	10,929
Total Consumer Loans	12,665	43	74	25	-	12,807
Total Loans	\$ 522,820	\$ 43,646	\$ 21,968	\$ 25	\$ 16	\$ 588,475



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Purchased Loans**

*(In Thousands)*

For purposes of this Note 5, all references to “loans” means purchased loans.

During the fourth quarter of 2021 all purchased loans of \$38,703 were reclassified into LHFI.

The following is a summary of purchased loans at December 31:

	<u>2020</u>
Real Estate:	
Land Development and Construction	\$ 6,153
Farmland	520
1-4 Family Mortgages	23,306
Commercial Real Estate	<u>24,237</u>
Total Real Estate Loans	54,216
Business Loans:	
Commercial and Industrial Loans	7,871
Farm Production and Other Farm Loans	<u>755</u>
Total Business Loans	8,626
Consumer Loans:	
Other Consumer Loans	<u>940</u>
Total Consumer Loans	<u>940</u>
Total Gross Loans	63,782
Total Purchased Loans	<u><u>\$ 63,782</u></u>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

An age analysis of past due loans, segregated by class of loans, as of December 31, 2020 is as follows:

	Loans			Accruing Loans		
	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	90 or more Days Past Due
Real Estate:						
Land Development and Construction	\$ 332	\$ -	\$ 332	\$ 5,821	\$ 6,153	\$ -
Farmland	-	-	-	520	520	-
1-4 Family Mortgages	401	-	401	22,905	23,306	-
Commercial Real Estate	-	-	-	24,237	24,237	-
Total Real Estate Loans	733	-	733	53,483	54,216	-
Business Loans:						
Commercial and Industrial Loans	849	-	849	7,022	7,871	-
Farm Production and Other Farm Loans	-	-	-	755	755	-
Total Business Loans	849	-	849	7,777	8,626	-
Consumer Loans:						
Other Consumer Loans	35	-	35	905	940	-
Total Consumer Loans	35	-	35	905	940	-
Total Loans	\$ 1,617	\$ -	\$ 1,617	\$ 62,165	\$ 63,782	\$ -

There were no non credit deteriorated loans that were subsequently impaired and recognized in conformity with ASC 310 as of December 31, 2020.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5. Continued**

The following table details the amount of gross loans by loan grade, which are consistent with the Company's loan grades, and class for the year ended December 31, 2020:

	1,2,3,4	5,6	7	8	9	Loans
Real Estate:						
Land Development and Construction	\$ 5,364	\$ 766	\$ 23	\$ -	\$ -	\$ 6,153
Farmland	357	163	-	-	-	520
1-4 Family Mortgages	21,116	1,655	535	-	-	23,306
Commercial Real Estate	22,469	1,484	284	-	-	24,237
Total Real Estate Loans	49,306	4,068	842	-	-	54,216
Business Loans:						
Commercial and Industrial Loans	7,121	397	353	-	-	7,871
Farm Production and Other Farm Loans	755	-	-	-	-	755
Total Business Loans	7,876	397	353	-	-	8,626
Consumer Loans:						
Other Consumer Loans	862	29	35	-	14	940
Total Consumer Loans	862	29	35	-	14	940
Total Loans	\$ 58,044	\$ 4,494	\$ 1,230	\$ -	\$ 14	\$ 63,782

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5. Continued**

Loans purchased in business combinations that exhibited, at the date of acquisition, evidence of deterioration of the credit quality since origination, such that it was probable that all contractually required payments would not be collected, were as follows as of December 31:

	2020
Real Estate:	
Land Development and Construction	\$ 8
1-4 Family Mortgages	25
Total Real Estate Loans	33
Business Loans:	
Commercial and Industrial Loans	305
Total Business Loans	305
Total PCD Loans	\$ 338

Non-accrual loans of \$25 are included in the 1-4 Family Mortgages at December 31, 2020.

The following table presents the fair value of loans determined to be impaired at the time of acquisition:

	Total Purchased Credit Deteriorated Loans
Contractually-required principal	\$ 993
Nonaccretable difference	(68)
Cash flows expected to be collected	925
Accretable yield	(36)
Fair Value	\$ 889

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 6. Allowance for Loan Losses**

*(in thousands)*

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 20 quarters with the most current quarters 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, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6. Continued**

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31:

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2021</b>				
Beginning Balance	\$ 3,885	\$ 611	\$ 239	\$ 4,735
Provision for loan losses	231	199	979	1,409
Chargeoffs	628	183	1,327	2,138
Recoveries	134	18	355	507
Net chargeoffs	494	165	972	1,631
Ending Balance	\$ 3,622	\$ 645	\$ 246	\$ 4,513

Period end allowance allocated to:

Loans individually evaluated for impairment	\$ 3	\$ 36	\$ -	\$ 39
Loans collectively evaluated for impairment	3,619	609	246	4,474
Ending Balance	\$ 3,622	\$ 645	\$ 246	\$ 4,513

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2020</b>				
Beginning Balance	\$ 3,075	\$ 371	\$ 309	\$ 3,755
Provision for (reversal of) loan losses	1,072	422	(9)	1,485
Chargeoffs	384	229	104	717
Recoveries	122	47	43	212
Net chargeoffs	262	182	61	505
Ending Balance	\$ 3,885	\$ 611	\$ 239	\$ 4,735

Period end allowance allocated to:

Loans individually evaluated for impairment	\$ 782	\$ 125	\$ -	\$ 907
Loans collectively evaluated for impairment	3,103	486	239	3,828
Ending Balance	\$ 3,885	\$ 611	\$ 239	\$ 4,735

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6. Continued**

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2019</b>				
Beginning Balance	\$ 2,845	\$ 222	\$ 305	\$ 3,372
Provision for loan losses	231	247	95	573
Chargeoffs	115	107	138	360
Recoveries	114	9	47	170
Net chargeoffs	1	98	91	190
Ending Balance	\$ 3,075	\$ 371	\$ 309	\$ 3,755

Period end allowance allocated to:

Loans individually evaluated for impairment	\$ 610	\$ 72	\$ -	\$ 682
Loans collectively evaluated for impairment	2,465	299	309	3,073
Ending Balance	\$ 3,075	\$ 371	\$ 309	\$ 3,755

The Company's recorded investment in loans as of December 31, 2021 and 2020 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:

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2021</b>				
Loans individually evaluated for impairment	\$ 2,102	\$ 232	\$ -	\$ 2,334
Loans collectively evaluated for impairment	462,674	92,890	13,949	569,513
	\$ 464,776	\$ 93,122	\$ 13,949	\$ 571,847

	Real	Business		
	Estate	Loans	Consumer	Total
<b>2020</b>				
Loans individually evaluated for impairment	\$ 7,262	\$ 413	\$ -	\$ 7,675
Loans collectively evaluated for impairment	506,368	124,128	13,748	644,244
Acquired with deteriorated credit quality	33	305	-	338
	\$ 513,663	\$ 124,846	\$ 13,748	\$ 652,257

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 6. Continued**

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

	2021	2020	2019
Real Estate:			
Land Development and Construction	\$ 27	\$ (6)	\$ (18)
Farmland	(1)	-	-
1-4 Family Mortgages	(76)	243	32
Commercial Real Estate	544	25	(13)
Total Real Estate Loans	494	262	1
Business Loans:			
Commercial and Industrial Loans	165	182	98
Total Business Loans	165	182	98
Consumer Loans:			
Credit Cards	19	39	34
Other Consumer Loans	953	22	57
Total Consumer Loans	972	61	91
Total Net Chargeoffs	\$ 1,631	\$ 505	\$ 190

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7. Bank Premises, Furniture, Fixtures and Equipment**

*(in thousands)*

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2021 and December 31, 2020:

	<b>2021</b>	<b>2020</b>
Land and buildings	\$ 35,108	\$ 33,651
Furniture, fixtures and equipment	6,911	7,105
	42,019	40,756
Less accumulated depreciation	15,358	15,126
Total	<u>\$ 26,661</u>	<u>\$ 25,630</u>

Depreciation expense for the years ended December 31, 2021, 2020 and 2019, respectively, was \$1,064, \$1,012, and \$899.

The Company leases certain premises and equipment under operating leases. At December 31, 2021, the Company had lease liabilities and right-of-use (“ROU”) assets totaling \$544 related to these leases. Lease liabilities and ROU assets are reflected in other liabilities and other assets, respectively. For the year ended December 31, 2021, the weighted average remaining lease term for operating leases was 2.4 years and the weighted average discount rate used in the measurement of operating lease liabilities was 1.23%.

Lease costs were as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<i>(in thousands)</i>		
Operating lease cost	\$ 364	\$ 473
Short-term lease cost	23	23
	<u>\$ 387</u>	<u>\$ 496</u>

There were no sale and leaseback transactions, leverage leases or lease transactions with related parties during the year ended December 31, 2021 and 2020.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7. Continued**

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

	<b>December 31, 2021</b>
Lease payments due:	
Within one year	\$ 200
After one year but within two years	65
After two years but within three years	64
After three year but within four years	65
After four years but within five years	66
After five years	73
Total undiscounted cash flows	533
Discount on cash flows	(9)
Total lease liability	\$ 524

**Note 8. Goodwill and Other Intangible Assets**

*(in thousands)*

Changes in the carrying amount of goodwill during the years ended December 31, 2021 were as follows:

	<b>Total</b>
Balance at December 31, 2019	\$ 13,103
Measurement period adjustment to goodwill from acquisition	(73)
Balance at December 31, 2020	13,030
Additions to goodwill and other adjustments	-
Balance at December 31, 2021	\$ 13,030

The period adjustment to goodwill in 2020 from the acquisition of Charter Bank (“Charter”) represents adjustments on the excess of the purchase price over the fair value of assets acquired and liabilities assumed in the relevant transaction. There were no changes to goodwill during the year ended December 31, 2021. The Company performed a goodwill impairment test for 2021 and concluded that the fair value of Charter acquisition substantially exceeded the book value and no impairment charge was required.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 8. Continued**

The following table provides a summary of finite-lived intangible assets as of the dates presented:

	<u>2021</u>	<u>2020</u>
Core deposit intangible	\$ 630	\$ 739
Accumulated amortization	(109)	(109)
Total finite-lived intangible assets	<u>\$ 521</u>	<u>\$ 630</u>

Core deposit intangible amortization expense for the years ended December 31, 2021, 2020 and 2019 was \$109, \$109 and \$27, respectively. The estimated amortization expense of finite-lived intangible assets for the five succeeding fiscal years is summarized as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2022	\$ 109
2023	109
2024	109
2025	109
2026	85
Thereafter	-
	<u>\$ 521</u>

**Note 9. Deposits**

*(in thousands)*

The composition of deposits as of December 31, 2021 and December 31, 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Non-interest bearing	\$ 302,707	\$ 276,033
NOW and money market accounts	451,809	480,650
Savings deposits	127,217	104,869
Time deposits, \$250,000 or more	68,270	71,344
Other time deposits	161,889	162,293
Total	<u>\$ 1,111,892</u>	<u>\$ 1,095,189</u>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9. Continued**

The scheduled maturities of time deposits at December 31, 2021 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2022	\$ 152,402
2023	37,498
2024	32,734
2025	3,107
2026	4,418
	\$ 230,159

**Note 10. Short-Term Borrowings**

*(in thousands)*

Short-term borrowings as of December 31 are summarized as follows:

	<b>2021</b>	<b>2020</b>
Securities sold under agreements to repurchase	\$ 112,760	\$ 196,272
Federal funds purchased	-	-
Federal Home Loan Bank short-term advances	-	25,000
Total short-term borrowings	\$ 112,760	\$ 221,272

Securities sold under agreements to repurchase (“repurchase agreements”) represent funds received from customers, generally on an overnight or continuous basis, which are collateralized by investment securities owned or, at times, borrowed and re-hypothecated by the Company. The securities used as collateral consist primarily of U.S. Government agency mortgage-backed securities, U.S. Government agency collateralized mortgage obligations, obligations of U.S. Government agencies, and obligations of states and political subdivisions. All securities are maintained by the Company’s safekeeping agents. These securities are reviewed by the Company on a daily basis, and the Company may be required to provide additional collateral due to changes in the fair market value of these securities. The terms of the Company’s repurchase agreements are continuous but may be canceled at any time by the Company or the customer.

Federal funds purchased are short term borrowings, generally overnight borrowings, between financial institutions that are generally used to maintain reserve requirements at the Federal Reserve Bank or elsewhere.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 10. Continued**

FHLB short-term advances are borrowings with original maturities of less than one year. Interest is payable monthly. Pursuant to collateral agreements with the FHLB, advances are collateralized by all of the Bank's FHLB stock and qualifying first mortgages and other loans. As of December 31, 2021 and 2020, the balance in qualifying first mortgages and other loans was \$221,088 and \$167,285 respectively.

The average balances and cost of funds of short-term borrowings for the years ending December 31 are summarized as follows:

	<b>Average Balances</b>		<b>Cost of Funds</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Securities sold under agreements to repurchase	\$ 129,207	\$ 181,699	0.30%	0.46%
Federal funds purchased	19	919	0.72%	0.44%
Federal Home Loan Bank short-term advances	6,056	9,399	0.14%	0.15%
Total short-term borrowings	<u>\$ 135,282</u>	<u>\$ 192,017</u>	<u>0.30%</u>	<u>0.45%</u>

**Note 11. Long-Term Debt**

*(in thousands)*

Long-term debt as of December 31, 2021 and 2020 is summarized as follows:

	<b>2021</b>	<b>2020</b>
Secured line of credit	\$ 18,000	\$ -
Total long-term debt	<u>\$ 18,000</u>	<u>\$ -</u>

*Secured line of credit*

On June 9, 2021, the Company obtained a secured revolving line of credit ("Line") in the amount of \$20,000 with First Horizon Bank. The proceeds of the Line were used to enhance the Bank's capital structure. The Line bears interest at a floating interest rate linked to WSJ Prime Rate with an initial interest rate of 3.25%, which is payable quarterly on the first day of each calendar quarter, commencing on July 1, 2021, with the final installment of interest being due and payable concurrently on the same date that the principal balance is due. The Line also bears an unused line fee at a rate equal to 0.25%, applied to the unused balance of the Line. The Line is fully secured by the common stock of the Bank. The Line matures on June 9, 2023, at which time all unpaid interest and principal is due and payable. The Company had availability of \$2,000 of unused funds of the secured line of credit at December 31, 2021.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 11. Continued**

The aggregate stated maturities of long-term debt outstanding at December 31, 2021, are summarized as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2022	\$ -
2023	18,000
2024	-
2025	-
2026	-
Thereafter	-
	<u>\$ 18,000</u>

**Note 12. Other Income and Other Expense**

*(in thousands)*

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:

<b>Other Income</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
BOLI Insurance	\$ 517	\$ 506	\$ 471
Mortgage Loan Origination Income	1,305	1,310	320
Other Income	<u>1,208</u>	<u>857</u>	<u>1,224</u>
Total Other Income	<u>\$ 3,030</u>	<u>\$ 2,673</u>	<u>\$ 2,015</u>

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 12. Continued**

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

Other Operating Expense	2021	2020	2019
Advertising	\$ 573	\$ 642	\$ 551
Office supplies	1,007	1,171	973
Professional fees	1,039	1,027	1,668
FDIC and state assessment	879	669	274
Technology expense	520	578	501
Postage and freight	618	548	(49)
Loan collection expense	89	236	286
Other losses	295	291	73
Debit card/ATM expense	733	612	551
Write down on OREO	914	230	-
Other expenses	2,172	2,356	2,602
Total Other Expense	\$ 8,839	\$ 8,360	\$ 7,430

**Note 13. Income Taxes**

*(in thousands)*

Income tax expense consists of the following:

	2021	2020	2019
Current payable (benefit)			
Federal	\$ 525	\$ 872	\$ 806
State	340	382	89
	865	1,254	895
Deferred tax expense	566	498	459
Income tax expense	\$ 1,431	\$ 1,752	\$ 1,354

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13. Continued**

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Federal taxes based on statutory rate	\$ 1,874	\$ 1,823	\$ 1,524
State income taxes, net of federal benefit	336	326	145
Tax-exempt investment interest	(593)	(280)	(309)
Income related to bank-owned life insurance	(218)	(126)	-
Other, net	32	9	(6)
	<hr/>	<hr/>	<hr/>
Income tax expense	\$ 1,431	\$ 1,752	\$ 1,354

At December 31, 2021 and December 31, 2020, net deferred tax assets consist of the following:

	<b>2021</b>	<b>2020</b>
Deferred tax assets		
Allowance for loan losses	\$ 1,293	\$ 1,181
Deferred compensation liability	2,429	2,485
Net operating loss carryforward	94	267
Other real estate owned	469	488
Acquisition fair value adjustments	23	76
Unrealized loss on securities available-for-sale	3,921	-
Other	-	206
	<hr/>	<hr/>
Total	8,229	4,703
Deferred tax liabilities		
Premises and equipment	1,686	1,622
Unrealized gain on securities available-for-sale	-	1,376
Core deposit intangible	130	157
Other	134	-
	<hr/>	<hr/>
Total	1,950	3,155
Net deferred tax asset	<hr/> \$ 6,279	<hr/> \$ 1,548

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



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 13. Continued**

As of December 31, 2021, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of December 31, 2021, 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, 2018 through 2020. The Company and Bank's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2018 through 2020.

The Company acquired federal net operating losses as part of its Charter acquisition, with varying expiration periods. The federal net operating losses ("NOLs") acquired were \$2,302. The Company used \$824 of the NOL during 2021 and 2020. As part of the Tax Cuts and Jobs Act of 2017, the federal NOLs created by Charter during 2019 have an indefinite carryforward period.

**Note 14. Summarized Financial Information of Citizens Holding Company**

*(in thousands)*

Summarized financial information of Citizens Holding Company, excluding the Bank, at December 31, 2021 and December 31, 2020, and for the years ended December 31, 2021, 2020 and 2019, is as follows:

**Balance Sheets**  
December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Assets		
Cash <sup>(1)</sup>	\$ 427	\$ 2,197
Investment in bank subsidiary <sup>(1)</sup>	123,140	117,078
Other assets <sup>(1)</sup>	333	273
Total assets	<u>\$ 123,900</u>	<u>\$ 119,548</u>
Liabilities		
Secured line of Credit	\$ 18,000	\$ -
Shareholders' equity	105,900	119,548
Total liabilities and shareholders' equity	<u>\$ 123,900</u>	<u>\$ 119,548</u>

<sup>(1)</sup> Fully or partially eliminates in consolidation.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 14. Continued**

**Income Statements**  
Years Ended December 31, 2021, 2020 and 2019

	2021	2020	2019
Interest income <sup>(1)</sup>	\$ 1	\$ 2	\$ 2
Other income			
Dividends from bank subsidiary <sup>(1)</sup>	4,104	6,099	11,242
Equity in undistributed earnings			
gain(loss) of bank subsidiary <sup>(1)</sup>	3,995	1,260	(4,965)
Total other income	8,099	7,359	6,277
Other expense	820	526	462
Income before income taxes	7,280	6,835	5,817
Income tax benefit	(214)	(96)	(85)
Net income	\$ 7,494	\$ 6,931	\$ 5,902

<sup>(1)</sup> Eliminates in consolidation.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14. Continued**

**Statements of Cash Flows**  
Years Ended December 31, 2021, 2020 and 2019

	2021	2020	2019
Cash flows from operating activities			
Net income	\$ 7,494	\$ 6,931	\$ 5,902
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed (earnings) loss of the Bank	(3,995)	(1,260)	4,965
Stock compensation expense	161	167	163
(Increase) decrease in other assets	(60)	(100)	97
Net cash provided by operating activities	3,600	5,738	11,127
Cash flows from investing activities			
Net cash paid in acquisition activities	\$ -	\$ -	\$ (6,113)
Increase in ownership in subsidiary	(18,000)	-	-
Net cash used in investing activities	(18,000)	-	(6,113)
Cash flows from financing activities			
Dividends paid to shareholders	\$ (5,370)	\$ (5,363)	\$ (4,874)
Proceeds from borrowings on secured line of credit	18,000	-	-
Proceeds from stock options	-	86	-
Net cash provided by (used in) financing activities	12,630	(5,277)	(4,874)
Net (decrease) increase in cash	(1,770)	461	140
Cash, beginning of year	2,197	1,736	1,596
Cash, end of year	\$ 427	\$ 2,197	\$ 1,736

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 15. Related Party Transactions**

*(in thousands)*

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

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

Deposits from related parties at December 31, 2021 and December 31, 2020 approximated \$133,441 and \$7,190, respectively.

The Company and its subsidiary have business dealings with companies owned by directors and beneficial shareholders of the Company. One director is a partner of the law firm that provides general counsel to the Company. Legal and other fees paid to this law firm for the years ended December 31, 2021, 2020, and 2019 were \$128, \$79, and \$300, respectively. Additionally, one director is associated with a business which provides insurance to the Company in which the amounts paid for this service in 2021, 2020, and 2019 were \$280, \$229, and \$106, respectively.

**Note 16. Off-Balance Sheet Financial Instruments, Commitments and Contingencies and Concentrations of Risks**

*(in thousands)*

**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, 2021 and December 31, 2020, commitments related to unused lines of credit were \$112,292 and \$138,185, respectively, and standby letters of credit were \$4,432 and \$4,565, respectively. The fair value of such commitments is not materially different than stated values.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 16. Continued**

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

We are a party to various legal proceedings such as claims and lawsuits arising in the course of our normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of December 31, 2021 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our business, results of operations or financial condition.

Concentration of Risk

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

Although the Company's loan portfolio is diversified, there is a relationship in this state and our operating regions 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. 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 4 for a summary of loans by type.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 17. Benefit Plans**

*(in thousands)*

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 2021, 2020 and 2019, the Company's contributions were \$720, \$712 and \$605, respectively.

In connection with the acquisition of Charter, the Company assumed the Charter Bank 401(k) Plan. The plan was terminated by Charter immediately prior to the acquisition where the Charter employees had the choice to rollover their account balance into the Company's plan, rollover their account balance into another account or take a distribution. The final distribution of account balances has occurred. There was no impact on the Company's consolidated financial statements as of and for the years ended December 31, 2019 associated with the plan.

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 \$146, \$142 and \$173 for the plan years ended December 31, 2021, 2020 and 2019, 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 \$788, \$607 and \$586 for the plan years ended December 31, 2021, 2020 and 2019, respectively.



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 18. Regulatory Matters**

*(in thousands)*

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, 2021, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

The Federal Reserve Bank ("FRB"), Federal Deposit Insurance Corporation ("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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 18. Continued**

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

- 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 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 capital conservation buffer increases the minimum common equity Tier 1 capital ratio to 7%, the minimum Tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5% for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers.

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

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 18. Continued**

As of December 31, 2021 and 2020, the most recent regulatory notification categorized the Bank as well capitalized. There have been no conditions or events that would cause changes to the capital structure of the Company since this notification. To continue to be categorized as well capitalized under the regulatory framework for prompt corrective action, the Company would have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed below, in comparison with actual capital amounts and ratios:

	Actual		Minimum Capital Requirement to be Well Capitalized		Minimum Capital Requirement to be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2021</b>						
Citizens Holding Company						
Tier 1 leverage ratio	\$ 104,181	7.80%	\$ 66,789	5.00%	\$ 53,431	4.00%
Common Equity tier 1 capital ratio	104,181	7.80%	86,826	6.50%	60,110	4.50%
Tier 1 risk-based capital ratio	104,181	13.16%	63,322	8.00%	47,492	6.00%
Total risk-based capital ratio	108,694	13.73%	79,153	10.00%	63,322	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$ 121,421	9.09%	\$ 66,776	5.00%	\$ 53,421	4.00%
Common Equity tier 1 capital ratio	121,421	9.09%	86,808	6.50%	60,098	4.50%
Tier 1 risk-based capital ratio	121,421	15.34%	63,314	8.00%	47,486	6.00%
Total risk-based capital ratio	125,934	15.91%	79,143	10.00%	63,314	8.00%
<b>December 31, 2020</b>						
Citizens Holding Company						
Tier 1 leverage ratio	\$ 101,640	7.22%	\$ 70,344	5.00%	\$ 56,275	4.00%
Common Equity tier 1 capital ratio	101,640	7.22%	91,448	6.50%	63,310	4.50%
Tier 1 risk-based capital ratio	101,640	12.55%	64,780	8.00%	48,585	6.00%
Total risk-based capital ratio	106,375	13.14%	80,975	10.00%	64,780	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	\$ 99,170	7.05%	\$ 70,326	5.00%	\$ 56,261	4.00%
Common Equity tier 1 capital ratio	99,170	7.05%	91,423	6.50%	63,293	4.50%
Tier 1 risk-based capital ratio	99,170	12.25%	64,759	8.00%	48,569	6.00%
Total risk-based capital ratio	103,905	12.84%	80,948	10.00%	64,759	8.00%

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 19. Fair Values of Financial Instruments**

*(in thousands)*

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 Company used the following methods and assumptions to estimate the fair value of financial instruments that are measured at fair value on a recurring basis:

#### Investment Securities

The fair values of debt securities available for sale are determined by third party matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 19. Continued**

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2021:

	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	\$ -	\$ 4,700	\$ -	\$ 4,700
Mortgage-backed securities	-	399,591	-	399,591
State, County, Municipals	-	227,051	-	227,051
Other securities	-	493	-	493
	<u>\$ -</u>	<u>\$ 631,835</u>	<u>\$ -</u>	<u>\$ 631,835</u>

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2020:

	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	\$ -	\$ 12,061	\$ -	\$ 12,061
Mortgage-backed securities	-	561,983	-	561,983
State, County, Municipals	-	104,197.00	-	104,197
Other securities	-	508	-	508
	<u>\$ -</u>	<u>\$ 678,749</u>	<u>\$ -</u>	<u>\$ 678,749</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 19. 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 knowledge of the client and the client's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified Level 3. The unobservable inputs may vary depending on the individual assets with the fair value of real estate based on appraised value being the predominant approach. The Company reviews the certified appraisals for appropriateness and adjusts the value downward to consider selling, closing and liquidation costs, which typically approximates 25% of the appraised value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified.

Other real estate owned

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

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 19. Continued**

The following table presents assets measured at fair value on a nonrecurring basis during December 31, 2021 and 2020 and were still held at those respective dates:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Totals
<u>December 31, 2021</u>							
Impaired loans	\$	-	\$	-	\$	109	\$ 109
Other real estate owned		-		-		1,121	1,121
	\$	-	\$	-	\$	1,230	\$ 1,230
<u>December 31, 2020</u>							
Impaired loans	\$	-	\$	-	\$	2,013	\$ 2,013
	\$	-	\$	-	\$	2,013	\$ 2,013

Impaired loans with a carrying value of \$112 and \$2,920 had an allocated allowance for loan losses of \$3 and \$907 at December 31, 2021 and December 31, 2020, 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 adjustments to OREO in the amount of \$836 and \$-0- was necessary and recorded during the year ended December 31, 2021 and December 31, 2020, respectively.



**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 19. Continued**

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2021 and December 31, 2020:

	Quoted Prices					
	Carrying Value	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	
<u>2021</u>						
Financial assets						
Cash and due from banks	\$ 10,673	\$ 10,673	\$ -	\$ -	\$ 10,673	
Interest bearing deposits with banks	68,563	68,563	-	-	68,563	
Securities available-for-sale	631,835	-	631,835	-	631,835	
Net loans	567,334	-	-	554,351	554,351	
Financial liabilities						
Deposits	1,111,892	881,733	230,590	-	1,112,323	
Securities Sold under Agreement to Repurchase	112,760	112,760	-	-	112,760	
Borrowings on secured line of credit	18,000	18,000	-	-	18,000	
	Quoted Prices					
	Carrying Value	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	
<u>2020</u>						
Financial assets						
Cash and due from banks	\$ 16,840	\$ 16,840	\$ -	\$ -	\$ 16,840	
Interest bearing deposits with banks	25,468	25,468	-	-	25,468	
Securities available-for-sale	678,749	-	678,749	-	678,749	
Net loans	647,521	-	-	638,362	638,362	
Financial liabilities						
Deposits	1,095,189	861,552	234,909	-	1,096,461	
Securities Sold under Agreement to Repurchase	196,272	196,272	-	-	196,272	
Federal Home Loan Bank advances	25,000	25,000	-	-	25,000	

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 20. Stock Based Compensation**

*(in thousands, except share data)*

The Company has a directors' stock compensation plan and had an employees' long-term incentive plan. Under the directors' plan, the Company may grant options for up to 210,000 shares of common stock. The price of each option is equal to the market price determined as of the option grant date. Options granted are exercisable after six months and expire after 10 years. The employee plan expired on April 13, 2009, no options have been granted since this date and all previously granted options either expired or were exercised as of December 31, 2021. 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 2021 or 2020, therefore no calculations were required in 2021 or 2020 to determine fair values.

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

During 2021, the Company's directors received restricted stock grants totaling 8,250 shares of common stock at a then market value of \$18.96 per share and in 2020 received 8,250 shares of common stock at a then market value of \$20.49 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 2021 was \$156 and will be recognized ratably over the one-year vesting period. The grant date fair value of the shares granted in 2020 was \$169 and was recognized ratably over the one-year vesting period.

During 2015, 7,500 shares of restricted stock was granted to the Chief Executive Officer (CEO) that would vest according to a stock performance schedule over the next five years. The stock performance for the Company met the goal for 2016 and the CEO became vested in 20%, or 1,500 shares of the restricted stock at an expense of \$32. Again in 2017, the Company met 20% of its goal and the CEO became vested in an additional 1,500 shares of the restricted stock at an expense of \$37. The stock performance for the Company did not meet the goal in 2020, 2019 or 2018 and no corresponding expense was recorded. Additionally, the remaining 4,500 shares of restricted stock were forfeited as of June 22, 2020, the expiration of the five-year vesting period.

During 2021 and 2020, the Company recorded expense of \$161 and \$167 related to all of the restricted shares.

At December 31, 2021, there were 8,250 shares non-vested with \$52 in unrecognized stock-based compensation expense related to the 2013 Plan.

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 20. Continued**

Following is a summary of the status of the stock options remaining under the plans for the years ending December 31, 2021, 2020 and 2019:

	<b>Directors' Plan</b>	
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2019	52,500	\$ 21.55
Granted	-	-
Exercised	-	-
Expired	(12,000)	21.75
Outstanding at December 31, 2019	40,500	\$ 21.49
Granted	-	-
Exercised	(7,500)	19.26
Expired	(13,500)	25.72
Outstanding at December 31, 2020	19,500	\$ 19.42
Granted	-	-
Exercised	-	-
Expired	(10,500)	20.02
Outstanding at December 31, 2021	9,000	\$ 18.76
Options exercisable at: December 31, 2021	9,000	\$ 18.76

**CITIZENS HOLDING COMPANY**  
Years Ended December 31, 2021, 2020 and 2019

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 20. Continued**

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

Range of Exercise Prices	Options Outstanding	Weighted Average Price	Weighted Average Life Remaining
\$15.01 to \$20.00	9,000	\$18.76	4 months
Total	9,000	\$18.76	4 months

The intrinsic value of options outstanding under the Directors' Plan at December 31, 2021 was \$-0-. Additionally, the total intrinsic value of options exercised during 2021 and 2020 was \$-0- and \$-0-, respectively.

There were no options granted during 2021 or 2020 under the 2013 Plan.

**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**as of December 31, 2021, 2020 and 2019**  
*(in thousands)*

## OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2021, 2020 and 2019. 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.

Net income for the year ended December 31, 2021 was \$7,494, an increase of \$563, or 8.12% compared to \$6,931 at December 31, 2020. Net income increased year-over-year primarily due to management's focus on lowering cost of interest-bearing deposits to help mitigate margin compression coupled with improving noninterest revenue streams.

The Company continued to maintain and expand customer relationships as reflected by the deposit growth of \$16,703 or 1.53% to \$1,111,892 at December 31, 2021 compared to \$1,095,189 at December 31, 2020. Total noninterest-bearing deposits increased \$26,674, or 9.66%, to \$302,707 at December 31, 2021, compared to \$276,033 at December 31, 2020. Along with increasing noninterest-bearing deposits for the year, management was able to reprice and reduce the cost of funds by 26 basis points ("bps") from 76 bps at December 31, 2020 to 50 bps at December 31, 2021. Year-over-year interest expense decreased by \$2,412, or (32.48%) as a result of management's repricing and reduction of higher cost interest-bearing deposits.

The COVID-19 pandemic and actions taken to mitigate the spread of it had, and may continue to have, an adverse impact on economic activity globally, nationally and locally, including the geographical area in which the Company operates and industries in which the Company extends credit. Economic activity for 2021 increased as certain restrictions were lifted following increased COVID-19 vaccination rates; however, restrictions remain in place for many areas and the long-term effectiveness of the vaccine and the full impact of the COVID-19 pandemic on economies and financial markets remains unknown. Additionally, the COVID-19 pandemic has significantly affected the financial markets and resulted in a number of actions by the Federal Reserve Bank ("FRB") during 2020 and continued in 2021. Market interest rates declined to and remain at historical lows. During 2020, the ten-year Treasury yield fell below 1.00% for the first time, and the FRB reduced the target federal funds rate to a range of 0.00% to 0.25% and announced a \$700 billion quantitative easing program in response to the expected economic downturn caused by the COVID-19 pandemic. The FRB reduced the interest that it pays on excess reserves from 1.60% to 0.10% during the first quarter of 2020. These rates have continued into 2021. The prolonged reduction in interest rates has had, and is expected to continue to have, an adverse effect on net interest income and margins and profitability for financial institutions, including the Company.

Due to the significant capital and liquidity deployed as a result of the pandemic, competition for quality loans tightened. As a result, loan growth for the year was negative. Provision for loan losses for 2021 decreased compared to the prior year by \$76, or (5.12%). The decrease is mainly attributed to negative loan growth offset due to the reclassification of purchased loans to LHFI and specific provisioning required for an impaired relationship that occurred during the year coupled with increases in qualitative factors due to the continued affects of the pandemic.

The Company and Bank remain well capitalized with all capital ratios above the regulatory requirements. During the second quarter of 2021, the Company obtained a \$20,000 secured revolving line of credit with First Horizon Bank (“FHN”) to enhance the Bank’s capital structure by injecting \$18,000 into the Bank. As result, The Bank’s leverage capital ratio increased from 7.05% at December 31, 2020 to 9.09% at December 31, 2021. The Tier 1 capital ratio for the Company and Bank was 13.16% and 15.34%, respectively, at December 31, 2021. The Company’s capital position reflects the consistent profitability of its diversified financial services businesses.

The Company’s return on average assets (“ROA”) was 0.53% in 2021, compared to 0.52% in 2020 and 0.51% in 2019. The Company’s return on average equity (“ROE”) was 6.74% in 2021, 5.89% in 2020 and 6.13% in 2019. During the 2019 to 2020 period, the Company’s leverage capital ratios (the ratio of equity to average total assets) decreased from 8.33% in 2019 to 7.22% in 2020, but then recovered slightly to 7.80% in 2021. The ROE in 2021, 2020 and 2019 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 net income in those years and also affected by the increase or decrease in total assets during these time periods. The Company set the annual dividend payout rate to approximately 71.64% of 2021 earnings per share, as compared to 77.42% in 2020 and 82.05% in 2019.

Management has continued its practice of maintaining excess funding capacity to provide the Company with adequate liquidity for its ongoing operations. In this regard, the Company benefits from its strong deposit base, its highly liquid investment portfolio, and its access to funding from a variety of external funding sources such as federal funds lines and FHLB advances. Liquidity is discussed in more detail beginning on page 90 of this report under the heading, *Liquidity and Rate Sensitivity*. The Company’s only commitment at December 31, 2021 that would require a material expenditure of capital resources is the outstanding \$18,000 FHN secured line of credit balance.

The Company is not aware of any developments that would have material impact on its revenues or net income outside of the pandemic. Interest rates are currently projected to increase over the next year to help mitigate inflation that has affected the economy due to the COVID-19 pandemic. The Company continues to be proactive in dealing with the effects of the pandemic to its employees, customers and communities. Although the ultimate impact of the crisis cannot be accurately predicted at this point, the Company believes that it is well-capitalized and has the financial stability to continue to serve its customers and communities during this unprecedented time.

## 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."

Loans purchased in acquisitions or mergers with evidence of credit deterioration since origination are accounted for under ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). ASC 310-30 prohibits the carryover of an allowance for loan losses for loans purchased in which the acquirer concludes that it will not collect the contractual amount. As a result, these loans are carried at values which represent management's estimate of the future cash flows of these loans. Increases in expected cash flow to be collected from the contractual cash flows are required to be recognized as an adjustment of the loan's yield over its remaining life, while decreases in expected cash flows are required to be recognized as an impairment. A more detailed discussion of loans accounted for under ASC 310-30, which were acquired in connection with our mergers, including our acquisitions of Charter, is set forth below under the heading "Provision for Loan Losses and Asset Quality" and in Note 6, "Purchased Loans" in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

### Business Combinations, Accounting for Purchased Loans

The Company accounts for its acquisitions under ASC 805, "Business Combinations," which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, and liabilities assumed are recorded at fair value and recognized separately from goodwill. For a purchased loan, no allowance for loan losses is recorded on the acquisition date because the fair value measurements incorporate assumptions regarding credit risk. This applies even to a purchased loan with evidence of credit deterioration since origination pursuant to ASC



310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC 310-30”). Generally speaking, rather than carry over an allowance for loan losses, as part of the acquisition we establish a “Day 1 Fair Value” of a purchased loan or pools of purchased loans sharing common risk characteristics, which equals the outstanding balance of a purchased loan or pool on the acquisition date less any credit and/or yield discount applied against the purchased loan or pool of loans. In other words, these loans or pools of loans are carried at values which represent our estimate of their future cash flows. After the acquisition date, a purchased loan or pool of loans will either meet or exceed the performance expectations established in determining the Day 1 Fair Values or deteriorate from such expected performance. If the cash flows expected to be collected on a purchased loan or pool of loans decreases from expectations established in determining the Day 1 Fair Values or since our most recent review of such portfolio’s performance, then the decrease is recognized as an impairment, and the Company provides for such loan or pool in the provision for loan losses in its consolidated statement of income; ultimately, the Company may partially or fully charge-off the carrying value thereof. If performance expectations are exceeded such that we increase our expectations of cash flows to be collected on the loan or pool, then the Company reverses any previous provision for such loan or pool and, if it continues to exceed expectations subsequent to the reversal of any previously-established provision, then we adjust the amount of accretable yield recognized on a prospective basis over the loan’s or pool’s remaining life, which has a positive impact on interest income.

Additional detail about our loans acquired in connection with our mergers, including our acquisition of Brand, is set forth below under the heading “Risk Management - Allowance for Loan Losses” and in Note 6, “Purchased Loans” in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, in this report.

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

## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

- expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions;
- adverse changes in asset quality and loan demand, and the potential insufficiency of the allowance for loan losses and our ability to foreclose on delinquent mortgages;
- the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Company operates including, but not limited to, the negative impacts and disruptions resulting from the COVID-19 pandemic;
- extensive regulation, changes in the legislative and regulatory environment that negatively impact the Company and the Bank through increased operating expenses and the potential for regulatory enforcement actions, claims, or litigation;
- increased competition from other financial institutions and the risk of failure to achieve our business strategies;
- events affecting our business operations, including the effectiveness of our risk management framework, the accuracy of our estimates, our reliance on third party vendors, the risk of security breaches and potential fraud, and the impact of technological advances;
- our ability to maintain sufficient capital and to raise additional capital when needed;
- our ability to maintain adequate liquidity to conduct business and meet our obligations;
- events affecting our ability to compete effectively and achieve our strategies, such as the risk of failure to achieve the revenue increases expected to result from our acquisitions, branch additions and in new product and service offerings, our ability to control expenses and our ability to attract and retain skilled people;
- events that adversely affect our reputation, and the resulting potential adverse impact on our business operations;
- risks arising from owning our common stock, such as the volatility and trading volume, our ability to pay dividends, the regulatory limitations on stock ownership, and provisions in our governing documents that may make it more difficult for another party to obtain control of us; and

- other risks detailed from time-to-time in the Company's filings with the Securities and Exchange Commission.

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

## **NET INCOME**

Net income for 2021 increased by 8.12% to \$7,494 or \$1.34 per share-basic and -diluted, from \$6,931 or \$1.24 per share-basic and -diluted for 2020. The provision for loan losses for 2021 was \$1,409 as compared to \$1,485 in 2020. The decrease in the provision is mainly attributed to negative loan growth offset due to the reclassification of the purchased loans to LHFI and specific provisioning required for one impaired relationship coupled with increases in qualitative factors due to the continued affects of the pandemic. Noninterest income increased by \$1,728, or 16.52%, and non-interest expense increased by \$1,922 or 5.75%, in 2021. Non-interest income for 2021 increased primarily as a result of increased interchange fees coupled with gains on the sale of OREO and investment securities. Noninterest expense increased mainly due to an increase in salaries and benefits, regulatory related expenses, the write-down of OREO, and the continued investment in customer facing and internal technology.

Net income for 2020 increased by 17.43% to \$6,931 or \$1.24 per share-basic and -diluted, from \$5,902 or \$1.17 per share-basic and -diluted for 2019. The provision for loan losses for 2020 was \$1,485 as compared to \$573 in 2019. The increases in the provision for loan losses in each quarter of 2020 compared to the same quarters in 2019 are primarily a result of the stable loan growth during the year along with qualitative adjustments for uncertainty of market conditions brought about by the COVID-19 pandemic. Non-interest income increased by \$712, or 7.30%, and non-interest expense increased by \$5,868 or 21.29%, in 2020. Non-interest income for 2020 increased primarily due to the result of increase in mortgage loan origination income due to a decrease in long-term mortgages rates, increase in gains from security sales to lower the Company's prepayment risk within the Company's mortgage-backed securities portfolio, partially offset by a decrease in overdraft income due to the savings trend related to the COVID-19 pandemic. Non-interest expense increased mainly due to an increase in non-recurring COVID-19 safety measures such as: Personal protective equipment ("PPE"), laptops, and branch safety measures. In addition, the Company also incurred with an increase in regulatory related expenses and core service contracts after the merger conversion in the second quarter of 2020. Also, a full year of recurring expenses from the Charter acquisition contributed to the increase of non-interest expense

## **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 \$34,339, \$33,699 and \$29,897 for the years 2021, 2020 and 2019, respectively. Net interest margin was 2.60%, 2.72% and 2.77% for the same periods. During 2021, the yields on interest earning assets and the rates paid on interest bearing deposits decreased. In 2021 as compared to 2020, interest-bearing assets increased by \$83,771, or 6.78% and interest-bearing liabilities increased by \$19,562, or 2.02%. For the year ended December 31, 2021, the average yield on earnings assets was 2.98%, a decrease of 35 basis points compared to the average yield at December 31, 2020. The average rate paid on interest-bearing liabilities was 0.50%, a decrease of 26 basis points compared to the average rate at December 31, 2020.

During 2020, the yields on interest earning assets and the rates paid on interest bearing deposits decreased. In 2020 as compared to 2019, interest-bearing assets increased by \$156,334, or 14.50% and interest-bearing liabilities increased by \$109,494, or 12.76%. For the year ended December 31, 2020, the average yield on earnings assets was 3.33%, a decrease of 44 basis points compared to the average yield at December 31, 2019. The average rate paid on interest-bearing liabilities was 0.76%, a decrease of 50 basis points compared to the average rate at December 31, 2019.

During this three-year period, loans outstanding increased in 2020 and 2019. In 2021 loans decreased significantly due to increased competition and stagnant loan demand due to the continued affects of the pandemic. Loans generally provide the Company with yields that are greater than the yields on typical investment securities. Additionally, the taxable securities yield drove a majority of the decline in the interest earning assets yield with the yield decreasing significantly due to historical low rates and increased prepayments on mortgage-backed securities. Management offset the decrease in the investment securities yield by repricing and reducing interest-bearing deposits.

Table 1 – 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, 2021, 2020 and 2019.

**TABLE 1 – AVERAGE BALANCE SHEETS AND INTEREST RATES**  
(in thousands)

	Average Balance			Income/Expense			Average Yield/Rate		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Loans:									
Loans, net of unearned <sup>(1)</sup>	\$628,618	\$622,309	\$560,888	\$31,327	\$30,980	\$29,427	4.98%	4.98%	5.25%
Investment Securities									
Taxable	496,946	498,016	388,490	4,440	7,837	7,993	0.89%	1.57%	2.06%
Tax-exempt	148,977	69,591	78,843	3,499	2,027	2,423	2.35%	2.91%	3.07%
Total Investment Securities	645,923	567,607	467,333	7,939	9,864	10,416	1.23%	1.74%	2.23%
Federal Funds Sold and Other	44,451	45,305	50,666	55	250	854	0.12%	0.55%	1.69%
Total Interest Earning Assets <sup>(1)(2)</sup>	1,318,992	1,235,221	1,078,887	39,321	41,094	40,697	2.98%	3.33%	3.77%
Non-Earning Assets	92,813	101,292	85,683						
Total Assets	\$1,411,805	\$1,336,513	\$1,164,570						
Deposits:									
Interest-bearing Demand									
Deposits <sup>(3)</sup>	\$487,894	\$449,828	\$381,635	\$1,324	\$3,062	\$3,468	0.27%	0.68%	0.91%
Savings	118,063	93,886	79,886	120	111	130	0.10%	0.12%	0.16%
Time	245,886	231,832	274,597	2,783	3,351	5,226	1.13%	1.45%	1.90%
Total Deposits	851,843	775,546	736,118	4,227	6,524	8,824	0.50%	0.84%	1.20%
Borrowed Funds									
Short-term Borrowings	135,282	192,017	121,951	402	871	1,976	0.30%	0.45%	1.62%
Long-term Borrowings	9692	-	-	353	-	-	3.64%	0.00%	0.00%
Total Borrowed Funds	144,974	192,017	121,951	755	871	1,976	0.52%	0.45%	1.62%
Total Interest-Bearing Liabilities <sup>(3)</sup>	996,817	967,563	858,069	4,982	7,395	10,800	0.50%	0.76%	1.26%
Non-Interest Bearing Liabilities									
Demand Deposits	291,248	236,881	192,672						
Other Liabilities	14,179	14,294	17,534						
Shareholders' Equity	119,253	117,775	96,295						
Total Liabilities and Shareholders' Equity	\$1,421,497	\$1,336,513	\$1,164,570						
Interest Rate Spread							2.48%	2.56%	2.51%
Net Interest Margin				\$34,339	\$33,699	\$29,897	2.60%	2.72%	2.77%
Less									
Tax Equivalent Adjustment				845	565	654			
Net Interest Income				\$33,494	\$33,134	\$29,243			

<sup>(1)</sup> 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.

<sup>(2)</sup> Earning Assets in Table 1 does not include the dividend paying stock of the Federal Home Loan Bank.

<sup>(3)</sup> 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 2 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2021, 2020, and 2019.

TABLE 2 – NET AVERAGE INTEREST EARNING ASSETS

	(in thousands)		
	2021	2020	2019
Average interest earning assets	\$ 1,318,992	\$ 1,235,221	\$ 1,078,887
Average interest bearing liabilities	996,817	967,563	858,069
Net average interest earning assets	\$ 322,175	\$ 267,658	\$ 220,818

Table 3 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2019 through 2021. 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 21% and a state tax rate of 5% in 2021 and 2020, respectively.

TABLE 3 – VOLUME/RATE ANALYSIS

	(in thousands)					
	2021 Change from 2020			2020 Change from 2019		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	\$ 314	33	\$ 347	\$ 6,959	\$ 2,181	\$ 9,140
Taxable securities	(17)	(3,380)	(3,397)	268	(620)	(352)
Non-Taxable securities	2,312	(840)	1,472	(928)	(94)	(1,022)
Federal funds sold and other	(5)	(190)	(195)	703	(6)	697
TOTAL INTEREST INCOME	\$ 2,605	\$ (4,378)	\$ (1,773)	\$ 7,002	\$ 1,461	\$ 8,463
INTEREST EXPENSE						
Interest-bearing demand deposits	\$ 259	(1,997)	(1,738)	\$ 196	\$ 2,141	2,337
Savings deposits	29	(20)	9	1	16	17
Time deposits	203	(771)	(568)	663	3,027	3,690
Short-term borrowings	(257)	(212)	(469)	73	255	328
Long-term borrowings	-	353	353	-	-	-
TOTAL INTEREST EXPENSE	\$ 233	\$ (2,646)	(2,413)	\$ 933	\$ 5,439	6,372
NET INTEREST INCOME	\$ 2,371	\$ (1,731)	\$ 640	\$ 6,070	\$ (3,979)	\$ 2,091

## LOANS

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

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

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

Loan demand in the Company's market was stagnant for the year as a result of the continued negative economic impact of the COVID-19 pandemic. The Company continues to face intense competition with aggressive loan terms for available loans from other financial institutions. Consequently, the Company had negative loan growth for 2021 with loans outstanding decreasing year-over-year. A majority of the decrease in loans is in the commercial, financial and agricultural segment, with a decline in loans of \$84,619, or (17.92%), in 2021. Excluding PPP loans of \$5,789 at December 31, 2021 and \$29,523 at December 31, 2020 the decrease in 2021 was \$60,885, or (13.76%). 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 current demand and terms of this loan segment.

Real estate mortgage loans originated by the Company decreased by (16.21%), or \$19,059 in 2021 and decreased by (3.63%), or \$4,430, in 2020, and increased by 37.49%, or \$33,267, in 2019 when compared to the prior years. The increase in mortgage loans in 2019 was mainly driven by the acquisition of Charter coupled with expansion to more metropolitan markets and the decrease in 2021 and 2020 years reflects the weakness in some of the Company's local housing markets coupled with increased competition in the mortgage market.



Real estate construction loans increased by \$23,067, or 47.24% in 2021 to \$71,898 when compared to the \$48,831 at December 31, 2020 and decreased by \$32,366 or (39.86%) when compared to 2019. Of the overall decrease for 2020, the Company had a reclassification of \$54,023 from real estate construction to other loan segments. Real estate construction loans are usually short term in nature and are dependent on construction activity in the Company's service area. Demand has started to recover for construction loans during the 2021 fiscal year despite the impact due to the COVID-19 pandemic.

Consumer loans increased by \$201 or 1.46% in 2021 and decreased by \$2,327 or (14.48%) in 2020, and increased by \$2,054, or 14.65% in 2019, compared to the prior years. The Company believes the COVID-19 pandemic coupled with inflation pressure and supply chain issues has caused consumer spending to be stagnant.

Table 4 – Loans Outstanding reflects outstanding balances by loan type for the past five years. Additional loan information is presented in Note 4, "Loans," to the Company's Consolidated Financial Statements included in this Annual Report.

TABLE 4 – LOANS OUTSTANDING  
(in thousands)

	AT DECEMBER 31,				
	2021	2020	2019	2018	2017
Commercial, financial and agricultural	\$387,475	\$472,094	\$357,789	\$285,420	\$267,767
Real estate - construction	71,898	48,831	81,197	41,134	25,923
Real estate - mortgage	98,525	117,584	122,014	88,747	95,925
Consumer	13,949	13,748	16,075	14,021	15,990
<b>TOTAL LOANS</b>	<b>\$571,847</b>	<b>\$652,257</b>	<b>\$577,075</b>	<b>\$429,322</b>	<b>\$405,605</b>

Table 5 – 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 5 – LOAN LIQUIDITY

LOAN MATURITIES AT DECEMBER 31, 2021

	1 YEAR OR LESS	1 - 5 YEARS	5 - 15 YEARS	AFTER 15 YEARS	Total
Commercial, financial and agricultural	\$56,190	\$242,719	\$68,793	\$19,773	\$387,475
Real estate - construction	16,242	35,438	12,357	7,861	\$71,898
Real estate - mortgage	14,146	68,314	16,065	-	\$98,525
Consumer	4,805	8,324	820	-	\$13,949
<b>Total loans</b>	<b>\$91,383</b>	<b>\$354,795</b>	<b>\$98,035</b>	<b>\$27,634</b>	<b>\$571,847</b>

## SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	\$401,699	\$64,897
Variable rates	44,479	60,772
Total loans	<u>\$446,178</u>	<u>\$125,669</u>

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 2021, 2020 and 2019. The ratio of net loans charged off to average loans was 0.26% in 2021, 0.08% in 2020 and 0.03% in 2019. 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 2021 was an expense of \$1,409 compared to \$1,485 in 2020 and \$573 in 2019. The change in the provision for all three years was mainly due to management's assessment of inherent losses in the loan portfolio, including the impact caused by current local and national economic conditions. The Company uses a model that takes into account historical charge-offs and recoveries and applies that to certain loan segments of the Company's portfolio. The current year's provision is mainly attributed to an impaired relationship that required a specific reserve in the third quarter of 2021. Additionally, during the fourth quarter of 2021 management reclassified the remaining purchased loans from the Charter

Bank merger to LHFI. These events were offset by the decline in loan balances throughout 2021. At the end of 2021, the total allowance for loan losses was \$4,513, 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 6 – 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 6 – ANALYSIS OF ALLOWANCE FOR LOAN LOSSES**

(in thousands except for percentage amounts)

	2021	2020	2019	2018	2017
BALANCE AT BEGINNING OF YEAR	\$ 4,735	\$ 3,755	\$ 3,372	\$ 3,019	\$ 3,903
<b>LOANS CHARGED-OFF</b>					
Commercial, financial and agricultural	775	272	176	35	166
Real estate - construction	36	37	-	74	112
Real estate - mortgage	-	304	46	133	57
Consumer	1,327	104	138	146	102
<b>TOTAL CHARGE-OFFS</b>	<b>2,138</b>	<b>717</b>	<b>360</b>	<b>388</b>	<b>437</b>
<b>CHARGE-OFFS RECOVERED</b>					
Commercial, financial and agricultural	67	65	91	219	2
Real estate - construction	9	43	18	19	14
Real estate - mortgage	76	61	14	81	16
Consumer	355	43	47	88	64
<b>TOTAL RECOVERIES</b>	<b>507</b>	<b>212</b>	<b>170</b>	<b>407</b>	<b>96</b>
Net loans charged-off	1,631	505	190	(19)	341
Additions charged to operating expense	1,409	1,485	573	334	(543)
<b>BALANCE AT END OF YEAR</b>	<b>\$ 4,513</b>	<b>\$ 4,735</b>	<b>\$ 3,755</b>	<b>\$ 3,372</b>	<b>\$ 3,019</b>
Loans, net of unearned, at year end	\$ 571,847	\$ 652,256	\$ 577,067	\$ 429,277	\$ 406,605
Ratio of allowance to loans at year end	0.79%	0.73%	0.65%	0.79%	0.74%
Average loans - net of unearned	\$ 629,186	\$ 622,805	\$ 561,483	\$ 418,136	\$ 395,217
Ratio of net loans charged-off to average loans	0.26%	0.08%	0.03%	0.00%	0.09%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES  
(in thousands)

	AT DECEMBER 31,				
	2021	2020	2019	2018	2017
Commercial, financial and agricultural	\$ 3,009	\$ 3,576	\$ 2,692	\$ 2,295	\$ 1,550
Real estate - construction	464	267	192	139	120
Real estate - mortgage	794	653	566	417	821
Consumer	246	239	305	521	528
Total	\$ 4,513	\$ 4,735	\$ 3,755	\$ 3,372	\$ 3,019

COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2021	2020	2019	2018	2017
Commercial, financial and agricultural	67.76%	72.38%	62.00%	66.48%	66.02%
Real estate - construction	12.57%	7.49%	14.07%	9.58%	6.39%
Real estate - mortgage	17.23%	18.03%	21.14%	20.67%	23.65%
Consumer	2.44%	2.11%	2.79%	3.27%	3.94%
	100.00%	100.00%	100.00%	100.00%	100.00%

Loan balances outstanding, as illustrated in Table 4, decreased in 2021 as a result of the increased competition and aggressive loan terms. All loan segments except commercial, financial and agricultural decreased in 2020. In 2019 as compared to 2018, all loan segments increased primarily due to the acquisition of Charter coupled with solid organic growth. 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 7 – 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, 2021 was 0.43% compared to 0.47% in 2020. OREO decreased in 2021 and in 2020 due to sales of several parcels in both 2021 and 2020 partially offset by foreclosures in 2020. The Company also had OREO write-downs of \$914 for 2021 and \$230 for 2020.

Loans on non-accrual status amounted to \$3,826 in 2021 as compared to \$8,484 in 2020 and \$12,026 in 2019. Interest income forgone on loans classified as non-accrual in 2021 was \$281 as compared to \$395 in 2020 and \$555 in 2019. 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 7 – NON-PERFORMING ASSETS**  
(in thousands, except percentages)

	As of December 31,				
	2021	2020	2019	2018	2017
<b>PRINCIPAL BALANCE</b>					
Non-accrual	\$3,826	\$8,484	\$12,026	\$9,839	\$7,582
Accruing loans 90 days or more past due	154	14	274	73	807
Troubled debt restructurings	213	2,113	2,495	2,782	3,047
<b>TOTAL NON-PERFORMING LOANS</b>	<b>\$4,193</b>	<b>\$10,611</b>	<b>\$14,795</b>	<b>\$12,694</b>	<b>\$11,436</b>
Income on non-accrual loans not recorded	\$281	\$395	\$555	\$429	\$413
Non-performing as a percent of loans	0.73%	1.63%	2.56%	2.96%	2.81%
Non-accrual as a percent of loans	0.67%	1.30%	2.08%	2.29%	1.86%
Other real estate owned	\$2,475	\$3,073	\$3,552	\$3,440	\$3,980
OREO as a percent of loans	0.43%	0.47%	0.62%	0.80%	0.98%
Allowance as a percent of non-performing loans	107.63%	44.62%	25.38%	26.56%	26.40%
Allowance as a percent of non-accrual loans	117.96%	55.81%	31.22%	34.27%	39.82%

ASC Subtopic 310-10, *Loan Impairments* outlines the guidance for evaluating impaired loans. These statements changed the methods of estimating the loan loss allowance for problem loans. In general, when management determines that principal and interest due under the contractual terms of a loan are not fully collectible, management must value the loan using discounted future expected cash flows. Management evaluates the Company's loans for impairment under ASC Subtopic 310-10. The balances of impaired loans for the years 2021, 2020 and 2019 were \$2,334, \$7,675 and \$11,135, respectively.

This table details the impaired loans by category for years ending 2021, 2020 and 2019.

	AT DECEMBER 31,		
	2021	2020	2019
Commercial, financial and agricultural	\$ 1,396	\$ 6,659	\$ 10,296
Real estate - construction	171	-	-
Real estate - mortgage	767	1,016	839
Total loans	\$ 2,334	\$ 7,675	\$ 11,135

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, 2021, loans totaling \$47,500 were included on the Company’s watch list compared to \$25,146 at December 31, 2020. 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, 2021, the Company classified all of its securities as AFS. AFS securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. The Company does not hold any securities classified as held to maturity or held for trading purposes.

Table 8 – Securities and Securities Maturity Schedule summarizes the amortized cost of securities from 2019 through 2021 and the maturity distribution at December 31, 2021, by classification.

TABLE 8 – SECURITIES

(in thousands)

	2021	2020	2019
SECURITIES AVAILABLE-FOR-SALE			
U. S. Government Agencies	\$ 4,969	\$ 11,870	\$ 97,400
Mortgage Backed Securities	411,729	560,033	308,310
State, County and Municipal Obligations	230,359	100,823	59,724
Other Securities	500	500	-
TOTAL SECURITIES AVAILABLE-FOR-SALE	\$ 647,557	\$ 673,226	\$ 465,434

## 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	\$ -	-	\$ -	-	\$ -	-	\$ 4,969	1.74%
Mortgage Backed Securities <sup>(1)</sup>	-	-	-	-	21,964	1.39%	389,765	1.36%
State, County and Municipal <sup>(2)</sup>	216	1.73%	1,895	3.10%	4,228	3.44%	224,020	2.38%
Other Securities	-	-	-	-	-	-	500	-
TOTAL AVAILABLE-FOR-SALE	\$ 216	1.73%	\$ 1,895	3.10%	\$ 26,192	1.72%	\$ 619,254	1.73%

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

<sup>(2)</sup> Average yields were calculated on tax equivalent basis using a marginal federal income tax rate of 21% 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 2021. This change is not used in the Tier 1 capital calculation.

As detailed in Table 8, the security portfolio decreased \$25,669 or (3.81%) in 2021, increased \$207,792 or 44.64% in 2020 and increased \$735 or 0.02% in 2019. 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 increased in 2021 as a result of an interest



rate promotion offered in the first quarter of 2021. Additionally, due to record savings and government stimulus that occurred due to the COVID-19 pandemic increases in other deposit products occurred in 2021. Time deposits decreased in 2020 compared to 2019 due to low interest rates as a result of the COVID-19 pandemic.

A three-year schedule of average deposits by type and maturities of time deposits greater than \$250 is presented in Table 9 – Deposit Information.

**TABLE 9 – DEPOSIT INFORMATION**  
(in thousands, except percentages)

	2021		2020		2019	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	\$291,248		\$236,881		\$192,672	
Interest-bearing demand	487,894	0.27%	449,828	0.68%	381,635	0.91%
Savings	118,063	0.10%	93,886	0.12%	79,886	0.16%
Time deposits	245,886	1.13%	231,832	1.45%	274,597	1.90%
	<u>\$1,143,091</u>	<u>0.50%</u>	<u>\$1,012,427</u>	<u>0.84%</u>	<u>\$928,790</u>	<u>1.20%</u>

**MATURITY RANGES OF TIME DEPOSITS  
OF \$250 OR MORE**

AS OF DECEMBER 31, 2021

3 months or less	\$26,641
3 through 12 months	21,516
1 year to 3 years	11,072
over 3 years	9,041
	<u>\$68,270</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 and the FHN secured line of credit.

**TABLE 10 - SHORT-TERM BORROWINGS**  
(in thousands)

	As of December 31,		
	2021	2020	2019
Short-term borrowings			
Year-end balance	\$ 112,760	\$ 221,272	\$ 170,410
Weighted average rate	0.36%	0.39%	1.05%
Maximum month-end balance	\$ 219,876	\$ 265,177	\$ 181,347
Year to date average balance	\$ 135,282	\$ 192,017	\$ 121,951
Weighted average rate	0.30%	0.45%	1.62%

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, 2021, the Company had the capacity to borrow up to \$221,088 from the FHLB and other financial institutions in the form of Federal Funds Purchased. The Company generally will use these types of borrowings if loan demand is greater than the growth in deposits. At December 31, 2021 the Company had borrowed \$-0- from the FHLB and \$-0- in Federal Funds Purchased. At December 31, 2020, the Company had borrowed \$25,000 from the FHLB and \$-0- in Federal Funds Purchased. In 2021, the balances in Securities Sold Under Agreement to Repurchase decreased \$83,512, or (42.55%) to \$112,760. In 2020, these balances increased to \$196,272, an increase of \$25,862, or 15.18% from 2019.

	(in thousands)
	2021
Less than one year	\$ -
One year to three years	18,000
Over three years	-
Total long-term borrowings	<u>\$ 18,000</u>

At the end of 2021, the Company had \$-0- in long-term debt to the FHLB for advances. The Company did have long-term debt of \$18,000 outstanding and an additional \$2,000 available balance at December 31, 2021 to FHN through a secured line of credit. See Note 11 for details of the long-term debt.

## NON-INTEREST INCOME AND EXPENSE

Table 11 - Non-Interest Income and Expense illustrates the Company's non-interest income and expense from 2019 through 2021 and percentage changes between such years.

TABLE 11 - NON-INTEREST INCOME & EXPENSE

	(in thousands)				
	% CHANGE		% CHANGE		
	2021	FROM '20	2020	FROM '19	2019
<b>NON-INTEREST INCOME</b>					
Service charges on deposit accounts	\$ 3,499	4.39%	\$ 3,352	-24.04%	\$ 4,413
Other operating income	8,689	22.24%	7,108	33.23%	5,335
<b>TOTAL NON-INTEREST INCOME</b>	<b>\$ 12,188</b>	<b>16.52%</b>	<b>\$ 10,460</b>	<b>7.30%</b>	<b>\$ 9,748</b>
<b>NON-INTEREST EXPENSE</b>					
Salaries and employee benefits	\$ 18,460	5.63%	\$ 17,476	17.42%	\$ 14,883
Occupancy expense, including equipment	7,135	-3.06%	7,360	40.32%	5,245
Other operating expense	9,753	13.54%	8,590	15.61%	7,430
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>\$ 35,348</b>	<b>5.75%</b>	<b>\$ 33,426</b>	<b>21.29%</b>	<b>\$ 27,558</b>

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, interchange fees, safe deposit box rentals, mortgage loan origination income, credit life insurance premiums and title insurance service fees.

During 2021 as compared to 2020, non-interest income increased by \$1,728, or 16.52%. An increase in other operating income mainly attributed to increases in interchange fees and net gains on sales of securities, partially offset by a decrease in mortgage loan origination income.

During 2020 as compared to 2019, non-interest income increased by \$712, or 7.30%. An increase in other operating income mainly attributed to increases in mortgage loan origination income and net gains on sales of securities, partially offset by a decrease in overdraft income.

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 2021 as compared to 2020, non-interest expense increased by \$1,922, or 5.75%, to \$35,348. Included in this increase was an increase in salaries and benefits in the amount of \$984, or 5.63% and other expense in the amount of \$1,163 or 13.54%. Write-downs on OREO of \$914, an increase of \$684 from 2020 of \$230 makes up a majority of the increase in other expense. Occupancy expense decreased in 2021 compared to 2020 for \$225, or (3.06%) to \$7,135 from \$7,360.

In 2020 as compared to 2019, non-interest expense increased by \$5,868, or 21.29%, to \$33,426. Included in this increase was an increase in occupancy expense of \$2,115 or 40.32%. Additionally, an increase in salaries and benefits in the amount of \$2,593, or 17.42%, and other expense in the amount of \$1,160, or 15.61%. The increase in occupancy expense was primarily due to non-recurring COVID-19 safety measures such as: PPE, laptops, and branch safety measures. In addition, the Company also incurred an increase in regulatory related expenses and core service contracts after the merger conversion in the second quarter of 2020. The increase in salaries and benefits was due to the Charter acquisition October 1, 2019.

In 2021, the Company's efficiency ratio was 78.24%, compared to 78.29% in 2020 and 77.88% in 2019. 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 \$6,279 is considered realizable and no valuation allowance is considered necessary.

The Company's effective tax rate was 16.03%, 20.18% and 18.66% % in 2021, 2020 and 2019, respectively. The major difference between the effective tax rate applied to the Company's financial statement income and the federal statutory rate of 21% in 2021, 2020 and 2019, respectively, is interest on tax-exempt securities and loans. Further tax information is disclosed in Note 13, "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; commercial repurchase agreements; Federal Funds Purchased; and short-term and long-term borrowing from the FHLB. In both 2021 and 2020, the Company experienced an increase in deposits and repurchase agreements in excess of the increase in loans outstanding. The increase in investment securities is mainly the result of the need to invest excess funds outside of new loans. The Company relies upon non-core sources of funding, such as commercial repurchase agreements, Federal Funds Purchased and short and long-term borrowings from the FHLB, when deposit growth is not adequate to meet its short-term needs. While the strategy of using these wholesale funding sources is adequate to cover liquidity

deficiencies in the short term, the Company's goal is to increase core deposits as a source of long-term funding. Management does not intend to rely on borrowings from the FHLB as the first choice as a source of funds but prefers to increase core deposits through increased competition for available deposits. Management believes that core deposits will increase by offering competitive rates and superior service to the Bank's customers.

The Company had \$-0- and \$25,000 of FHLB advances outstanding at year end of 2021 and 2020, respectively. The Company will continue to use advances if they are needed to maintain the Company's liquidity position.

The deposit base is diversified between individual and commercial accounts, which the Company believes helps it avoid dependence on large concentrations of funds. The Company does not currently solicit certificates of deposit from brokers. The primary sources of liquidity on the asset side of the balance sheet are securities classified as AFS. All of the \$631,835 in the investment securities portfolio is classified in the AFS category at December 31, 2021, and any securities not pledged are 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, 2021, both the ALCO and the Board of Directors determined that the Company's liquidity position was adequate.

Table 12 - Funding Uses and Sources details the main components of cash flows for 2021 and 2020.

TABLE 12 - FUNDING USES AND SOURCES  
(in thousands)

	2021			2020		
	Average Balance	Increase/(decrease) Amount	Percent	Average Balance	Increase/(decrease) Amount	Percent
<b><u>FUNDING USES</u></b>						
Loans, net of unearned income	\$ 628,618	\$ 6,309	1.01%	\$ 622,309	\$ 61,421	10.95%
Taxable securities	496,946	(1,070)	-0.21%	498,016	109,526	28.19%
Tax-exempt securities	148,977	79,386	114.08%	69,591	(9,252)	-11.73%
Federal funds sold and other	44,451	(854)	-1.89%	45,305	(5,361)	-10.58%
<b>TOTAL USES</b>	<b>\$ 1,318,992</b>	<b>\$ 83,771</b>	<b>6.78%</b>	<b>\$ 1,235,221</b>	<b>\$ 156,334</b>	<b>14.49%</b>
<b><u>FUNDING SOURCES</u></b>						
Noninterest-bearing deposits	\$ 291,248	\$ 54,367	22.95%	\$ 236,881	\$ 44,209	22.95%
Interest-bearing demand and savings deposits	605,957	62,243	11.45%	543,714	82,193	17.81%
Time deposits	245,886	14,054	6.06%	231,832	(42,765)	-15.57%
Short-term borrowings	6,075	(4,243)	-41.12%	10,318	8,835	595.75%
Commercial repo	129,207	(52,492)	-28.89%	181,699	57,355	46.13%
Long-term debt	9,692	9,692	-	-	-	-
<b>TOTAL SOURCES</b>	<b>\$ 1,288,065</b>	<b>\$ 83,621</b>	<b>6.94%</b>	<b>\$ 1,204,444</b>	<b>\$ 149,827</b>	<b>14.21%</b>

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 2021 as compared to 2020, total risk-based capital increased due to increased earnings and the strategic reduction of higher cost interest-bearing deposits.

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, 2021, as noted below in Table 13 - Capital Ratios. To be classified as well-capitalized, the Company and Bank must maintain the ratios described above.

**TABLE 13 – CAPITAL RATIOS**  
(in thousands, except percentage amounts)

	At December 31,		
	2021	2020	2019
Tier 1 capital			
Shareholders' equity	\$ 105,900	\$ 119,548	\$ 112,800
Less: Intangibles	(13,420)	(13,502)	(13,856)
Less: DTA related to NOLs	(94)	(267)	(1,000)
Add/less: Unrealized loss/(gain) on securities	11,795	(4,139)	789
<b>TOTAL TIER 1 CAPITAL</b>	<b>\$ 104,181</b>	<b>\$ 101,640</b>	<b>\$ 98,733</b>
Total capital			
Tier 1 capital	\$ 104,181	\$ 101,640	\$ 98,733
Allowable allowance for loan losses	4,513	4,735	3,755
<b>TOTAL CAPITAL</b>	<b>\$ 108,694</b>	<b>\$ 106,375</b>	<b>\$ 102,488</b>
<b>RISK WEIGHTED ASSETS</b>	<b>\$ 791,529</b>	<b>\$ 809,754</b>	<b>\$ 712,154</b>
<b>AVERAGE ASSETS (FOURTH QUARTER)</b>	<b>\$ 1,335,780</b>	<b>\$ 1,406,885</b>	<b>\$ 1,185,397</b>
<b>TIER 1 LEVERAGE RATIO</b>	<b>7.80%</b>	<b>7.22%</b>	<b>8.33%</b>
<b>COMMON EQUITY TIER 1 CAPITAL RATIO</b>	<b>7.80%</b>	<b>7.22%</b>	<b>8.33%</b>
<b>TIER 1 RISK-BASED CAPITAL RATIO</b>	<b>13.16%</b>	<b>12.55%</b>	<b>13.86%</b>
<b>TOTAL RISK-BASED CAPITAL RATIO</b>	<b>13.73%</b>	<b>13.14%</b>	<b>14.39%</b>

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 75% 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 16, "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**

Long-term debt obligations represent borrowings from the FHLB that have an original maturity in excess of one year along with the secured line of credit described in Note 11. The only other significant obligations, other than obligations under deposit contracts and short-term borrowing, were for operating leases for banking facilities. Operating leases are primarily for the lease of branches, ATM machines and other necessary equipment. The equipment leases are for various terms.

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

### ***OVERVIEW***

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

### ***MARKET/INTEREST RATE RISK MANAGEMENT***

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

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

In addition to the quarterly interest rate risk report, the Company employs a number of tools to measure interest rate risk. One tool is static gap analysis, which matches assets with specified maturities to liabilities with corresponding maturities. Although management believes that this does not provide a complete picture of the Company's exposure to interest rate risk, it does highlight significant short-term repricing volume mismatches. The following table presents the Company's rate sensitivity static gap analysis at December 31, 2021 (\$ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	\$ 181,344	\$ 138,005
Total rate sensitive liabilities	247,514	72,765
Net gap	\$ (66,170)	\$ 65,240

The analysis shows a negative gap position over the next three-month period, which would typically indicate that the Company would benefit somewhat from a decrease in market interest rates in the very short term. However, this is due to the noninterest-bearing deposits and, therefore; rate increases would be beneficial to the Company. Management believes the Company is well positioned from an interest rate risk perspective for any rate movements, up or down.

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 14 - 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, 2021 and December 31, 2020.

TABLE 14 - INTEREST RATE SENSITIVITY  
AS OF DECEMBER 31, 2021  
(in thousands)

	2022	2023	2024	2025	2026	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$86,477	\$70,633	\$72,739	\$84,030	\$87,820	\$64,897	\$466,596	\$453,886
Average Int Rate	4.50%	4.61%	5.01%	4.05%	3.77%	3.96%	4.30%	
Floating Rate	\$4,892	\$6,893	\$22,578	\$1,737	\$8,379	\$60,772	\$105,251	\$105,251
Average Int Rate	4.31%	3.62%	3.96%	4.24%	3.90%	4.57%	4.31%	
Investment securities								
Fixed Rate	\$217	\$225	-	\$1,535	\$136	\$644,947	\$647,060	\$631,835
Average Int Rate	1.73%	1.87%	-	4.66%	2.78%	2.39%	2.40%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate	\$68,563						\$68,563	\$68,563
Average Int Rate	0.08%						0.08%	
Interest-bearing deposits								
Fixed Rate	\$731,503	\$37,498	\$32,734	\$3,057	\$4,393		\$809,185	\$809,276
Average Int Rate	0.32%	0.78%	1.00%	0.66%	0.48%		0.37%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate								
Average Int Rate								
Floating Rate	\$112,760	\$18,000					\$130,760	\$130,760
Average Int Rate	0.36%	3.59%					0.80%	

AS OF DECEMBER 31, 2020

(in thousands)

	2021	2022	2023	2024	2025	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	\$91,241	\$85,106	\$88,745	\$100,155	\$122,545	\$75,479	\$563,271	\$557,032
Average Int Rate	4.74%	3.48%	4.63%	5.14%	4.01%	4.00%	4.35%	
Floating Rate	\$12,223	\$7,700	\$4,469	\$13,150	\$2,027	\$49,417	\$88,986	\$88,986
Average Int Rate	3.52%	4.63%	3.88%	4.57%	4.49%	4.62%	4.42%	
Investment securities								
Fixed Rate		\$5,375	\$228	\$240	\$2,501	\$664,882	\$673,226	\$678,749
Average Int Rate		2.41%	1.80%	1.99%	3.89%	0.56%	2.30%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate	\$25,468						\$25,468	\$25,468
Average Int Rate	0.98%						0.98%	
Interest-bearing deposits								
Fixed Rate	\$736,611	\$48,684	\$17,603	\$13,069	\$3,189		\$819,156	\$820,487
Average Int Rate	0.67%	1.67%	1.42%	2.04%	0.68%		1.16%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate								
Average Int Rate								
Floating Rate	\$221,272						\$221,272	\$221,272
Average Int Rate	0.39%						0.39%	

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 15 - Rate Sensitivity Gap reflects interest-earning assets and interest-bearing liabilities by maturity distribution as of December 31, 2021. Product lines repricing in time periods predetermined by contractual agreements are included in the respective maturity categories.

TABLE 15 - RATE SENSITIVITY GAP AT DECEMBER 31, 2021

(in thousands, except percentage amounts)

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
<b>INTEREST EARNING ASSETS</b>					
Loans	\$ 96,302	\$ 99,117	\$ 344,159	\$ 27,950	\$ 567,528
Investment securities	16,479	38,888	145,764	447,687	648,818
Interest Bearing Due From Bank Accounts	68,563	-	-	-	68,563
Federal funds sold	-	-	-	-	-
<b>TOTAL INTEREST BEARING ASSETS</b>	<b>\$ 181,344</b>	<b>\$ 138,005</b>	<b>\$ 489,923</b>	<b>\$ 475,637</b>	<b>\$ 1,284,909</b>
<b>INTEREST BEARING LIABILITIES</b>					
Interest bearing demand deposits	\$ 99,289	\$ -	\$ 132,385	\$ 165,482	\$ 397,156
Savings and Money Market deposits	57,311	-	93,606	31,380	182,297
Time deposits	79,638	72,765	77,732	-	230,135
Short term borrowings	11,276	-	67,656	33,828	112,760
Long term borrowings	-	-	-	-	-
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>\$ 247,514</b>	<b>\$ 72,765</b>	<b>\$ 371,379</b>	<b>\$ 230,690</b>	<b>\$ 922,348</b>
Rate sensitive gap	\$ (66,170)	\$ 65,240	\$ 118,544	\$ 244,947	\$ 362,561
Rate sensitive cumulative gap	(66,170)	(930)	117,614	362,561	-
Cumulative gap as a percentage of total earning assets	-5.15%	-0.07%	9.15%	28.22%	

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, 2021. This negative gap position was mainly due to: (1) a large cash balance at the balance sheet date that has not been reinvested at the time of the balance sheet date; (2) a significant amount of non-maturity deposits classified within that period; and (3) approximately 34.60% of certificates of deposit maturing during that period.

The interest rate sensitivity and rate sensitivity gap tables, taken together, indicate that the Company to be in an asset sensitive position when evaluating the maturities of interest-bearing items. Thus, an increase in the interest rate environment would enhance earnings, while a decrease in interest rates would have the opposite effect on the Company's earnings. At the current stage in the pandemic with interest rates at historical lows and inflation pressure starting to affect the economic recovery, the Company foresees interest rates will increase in the coming year. As a result, the Company is in position to benefit from interest rate hikes due to the amount of assets set to reprice during the coming year, and due to the fact interest-bearing demand and savings deposits may not be immediately affected by changes in general interest rates.

The COVID-19 pandemic has significantly affected the financial markets and has resulted in a number of actions by the Federal Reserve Bank ("FRB"). Market interest rates have declined significantly. On March 3, 2020, the ten-year Treasury yield fell below 1.00% for the first time, and the FRB reduced the target federal funds rate by 50 basis points to a range of 1.00% to 1.25%. On March 15, 2020, the FRB further reduced the target federal funds rate by 100 basis points to a range of 0.00% to 0.25% and announced a \$700 billion quantitative easing program in response to the expected economic downturn caused by the COVID-19 pandemic. The FRB reduced the interest that it pays on excess reserves from 1.60% to 1.10% on March 3, 2020, and then to 0.10% on March 15, 2020. The movement in the short-term interest rates impact the Company's decisions in regards to pricing the Company's products and services. The short-term interest rates have had an impact on the Company's earnings as we were able to reprice a majority of our interest-bearing deposits for total interest expense cost savings of \$2,412 compared to 2020. The Company is focused on positioning the balance sheet to become more asset sensitive to interest rates due to the expectation of interest rate hikes in the coming year to help mitigate inflation concerns. In 2021, the Company was asset sensitive with a focus on sustaining the Company's asset sensitive position to be able take advantage of rate hikes in the coming year. The Company's net interest margin in 2021 was 2.60% and in 2020 was 2.72% due to the aforementioned facts.



## 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 February 28, 2022, the common stock's closing price on NASDAQ was \$17.95.

On February 28, 2022, shares of the Company's common stock were held of record by approximately 481 shareholders.

### **DIVIDENDS**

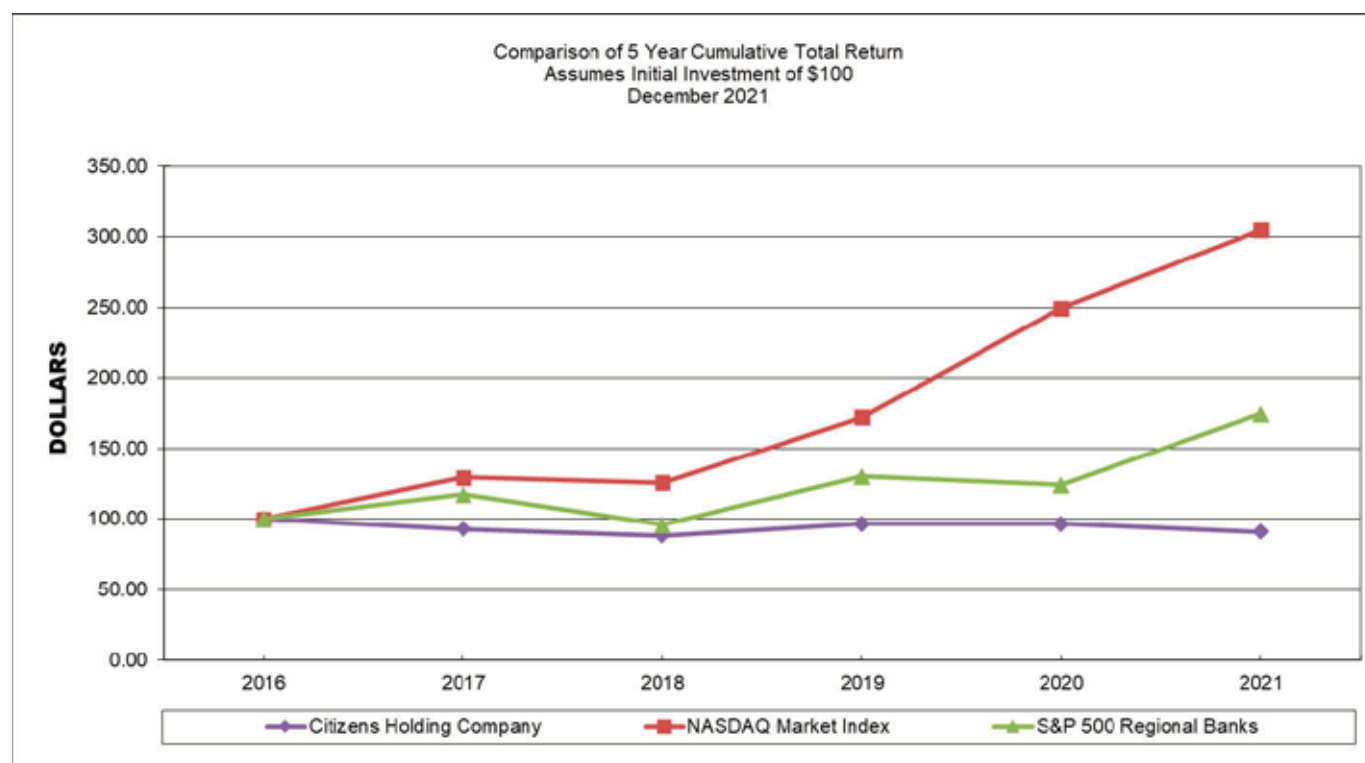
Dividends totaled \$0.96 per share for 2021 and 2020.

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

## STOCK PERFORMANCE GRAPH

The following graph shows a comparison of the cumulative total stockholder return on our common stock with the cumulative total returns of the NASDAQ Composite Index and the S&P 500 Regional Banks index. The S&P 500 Regional Banks index replaces the Morningstar Regional Banks Index in this analysis and going forward, as Morningstar has changed its methodology for its index. The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes during the last five fiscal years ended December 31, 2021. Data for the NASDAQ Composite Index and S&P 500 Regional Banks index assume reinvestment of dividends. Stockholder returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

**Performance Graph**  
**December 31, 2016 - December 31, 2021**



	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Citizens Holding Company	100.00	93.05	88.39	96.48	96.48	90.88
NASDAQ Market Index	100.00	129.64	125.96	172.18	249.51	304.85
S&P 500 Regional Banks	100.00	117.43	96.08	130.11	124.21	174.55

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

Phillip R. Branch  
Senior Vice President, CFO

Mark Taylor  
Senior Vice President, COO, Trust Officer

Ray Stone  
Senior Vice President, Chief Credit Officer

Ledale Reynolds  
Senior Vice President and CIO

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

Jackie Hester  
Vice President, Marketing Officer

Pam Lewis  
Assistant Vice President, Collections Manager

Jean T. Fulton  
Vice President, Internal Auditor

Brad Copeland  
Vice President, Branch Manager

Mark Majure  
Vice President, Loan Review Officer

Bob Posey  
Vice President

Mike Chandler  
Vice President

Stacy Arnold  
Vice President, Compliance Officer

Tabbatha Calvert  
Vice President, BSA Officer

Joshua Sullivan  
Vice President, Senior Credit Analyst

Ashley Peebles  
Vice President, Director of Deposit Services

Sommer Vick  
Assistant Vice President, Assistant Trust Officer

Mitch Peden  
Assistant Vice President, Information Services Manager

Pam Garrett  
Network Services Manager

Pat Stokes  
Assistant Vice President, Operations Officer

Scott Lewis  
Assistant Vice President, Information Security Officer

Sam Mars  
Assistant Vice President

Shon Kirkland  
Assistant Vice President, Security Officer/  
Facilities Manager

Charles Wilkerson  
Assistant Vice President, Loan Operations Officer

Greg Jackson  
Accounting Officer

Reaghan Jenkins  
Accounting Officer

Deborah Ladd  
Item Processing Officer

Sandra Curtis  
Assistant Cashier, Teller Administrator

Temika Triplett  
Assistant Cashier, Electronic Services Officer

Grant Comans  
Assistance Vice President, Branch Manager

Jamie Shotts  
Vice President, Appraisal Review Officer

### **Carthage Branch**

Billy Cook  
Vice President

Tonya Dorman  
Deposit Operations Officer

### **Sebastopol Branch**

Connie Comans  
Branch President

### **Union and Decatur Branches**

Susan Brown  
Deposit Operations Officer

### **Kosciusko Branch**

Teresa Patterson  
Vice President, Branch Manager

**Scooba and DeKalb Branches**

Reggie Moore  
Assistant Vice President, Branch Manager

Jan White  
Branch Operations Officer

**Forest Branch**

Lawanda McCaughn  
Deposit Operation Officer

**Louisville Branch**

Bruce Lee  
Market President – Winston County

Lynn Graham  
Assistant Vice President, Branch Operations Officer

**Starkville Branch**

Rhonda Edmonson  
Assistant Vice President, Branch Manager

**Collinsville Branch**

Mike Shelby  
Vice President, Branch Manager

**Meridian Eastgate and Broadmoor Branches**

Jay Hines  
Vice President, Regional Commercial Lender

Tammara Hopson,  
Deposit Operations Officer

**Hattiesburg Branch**

Chad Hill  
Vice President, Branch Manager

Tammy McAlpin  
Commercial Loan Portfolio Manager

**Flowood Branch**

George Gammon III  
Metro Jackson President

Cory Bass  
Assistant Vice President, Accounting Officer

**Ridgeland Branch**

Daniel Webb  
Assistance Vice President

Katrena Thompson  
Branch Operation Officer

**Biloxi Cedar Lake and Lemovne Branches**

Travis Moore  
Vice President, Regional Commercial Lender

Tammy Warren  
Assistant Vice President, Mortgage Loan Officer

Katie Hancock  
Vice President, Branch Manager

Mandy Dawson  
Treasury Management Officer

**Mortgage Loan Department**

Charlene Deweese  
Assistant Vice President, Mortgage Loan Officer

**Oxford Branch**

Marion Boyd  
Vice President, Regional Commercial Lender

**Pascagoula Branch**

Gregory E. Cronin  
Gulf Coast President

Ford Kinsey  
Vice President, Senior Credit & Special Assets Officer

Paulette Roberts  
Vice President, Senior Operations Officer

Amber Thomas  
Vice President, Commercial Lender

Julius Bosco III  
Loan Compliance Officer

Theresa Jenkins  
Community Retail Officer

**Ocean Springs Branch**

Melissa Ceasar  
Community Retail Officer

Sharon Wetzel  
Vice President, Information Technology Officer

Reagan Bradley  
Vice President, Commercial Lender

Thomas Graham  
Vice President, Mortgage Loan Officer

## **BOARD OF DIRECTORS**

Jason Voyles  
President & Chief Executive Officer  
Spectrum Capital, LLC

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

Gregory E. Cronin  
Gulf Coast President  
Citizens Holding Company and  
The Citizens Bank

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

Jane Crosswhite  
Executive Vice President  
Williams Brothers Inc.

Terrell E. Winstead  
Executive Vice President  
Molpus Woodlands Group

## **CITIZENS HOLDING COMPANY OFFICERS**

Herbert A. King  
Chairman

Greg L. McKee  
President and Chief Executive Officer

Mark Taylor  
Secretary

Phillip R. Branch  
Treasurer and Chief Financial Officer

Gregory E. Cronin  
Gulf Coast President

## **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  
601.656.4879

### **Starkville Branch**

201 Highway 12 West  
Starkville, MS 39759  
662.323.1420

### **Carthage Main Office**

301 West Main Street  
Carthage, MS 39051  
601.257.4525

### **Biloxi Cedar Lakes**

1830 Popp's Ferry Road  
Biloxi, MS 39532  
228.594.6913

### **Oxford Branch**

902 Sisk Avenue, Ste E  
Oxford, MS 38655

### **Collinsville Branch**

9065 Collinsville Road  
Collinsville, MS 39325  
601.626.7608

### **Flowood Branch**

2845 Lakeland Drive  
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

### **Gulfport Branch**

12008 Hwy 49  
Gulfport, MS 39503

### **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**

906 South Columbus Avenue  
Louisville, MS 39339  
662.773.6261

### **Noxapater Branch**

45 East Main Street  
Noxapater, MS 39346  
662.724.4261

### **Louisville-Industrial Branch**

1760 South Church Avenue  
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  
ATM Only

### **Ridgeland Branch**

320 Highway 51 North  
Ridgeland, MS 39157  
601.519.4020

### **Pascagoula Branch**

1519 Jackson Ave  
Pascagoula, MS 39567



**BANKING LOCATIONS** - Continued

<b>Ocean Springs Branch</b>	<b>Phone Teller</b>
2702 Bienville Blvd	1.800.397.0344
Ocean Springs, MS 39564	

**Internet and Mobile Banking**  
<http://www.thecitizensbankphila.com>

## **FINANCIAL INFORMATION**

### **CORPORATE HEADQUARTERS**

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

**601.656.4692**

### **ANNUAL SHAREHOLDER MEETING**

The Annual Shareholder meeting of the Citizens Holding Company, Inc. will be held Tuesday, April 26, 2022, at 4:30 P.M. in the lobby of the main office of The Citizens Bank, 521 Main Street, Philadelphia, Mississippi.

### **STOCK REGISTRAR AND TRANSFER AGENT**

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

### **FORM 10-K**

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

### **FINANCIAL CONTACT**

Phillip R. Branch  
Treasurer and Chief Financial Officer  
P.O. 209  
Philadelphia, Mississippi 39350

Additional information can be obtained from the Company's website at <https://www.thecitizensbankphila.com/investor-relations/>.

**Citizens Holding Company**  
521 Main Street, Philadelphia, MS 39350  
[www.thecitizensbankphila.com](http://www.thecitizensbankphila.com)