UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2023 or

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

For the transition period from _______________ to ________________

Commission file number: 001-15375

CITIZENS HOLDING COMPANY

(Exact Name of Registrant as Specified in Its Charter)

MISSISSIPPI (State or Other Jurisdiction of Incorporation or Organization)	64-0666512 (IRS Employer Identification Number)

(Address of Principal Executive Office)
521 Main Street, Philadelphia, MS
(Zip Code)
39350

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

Securities registered pursuant to Section 12(b) of the Act: None

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered

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

None

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.... ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.... ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).... ☐

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

As of June 30, 2023, the aggregate market value of the registrant's common stock, $.20 par value, held by non-affiliates of the registrant was $61,630,338 based on the closing sale price as reported on the NASDAQ Global Market for such date (the exchange on which the registrant's common stock was listed on June 30, 2023).

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

Class	Outstanding at March 29, 2024
Common stock, $.20 par value	5,624,052 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2023 are incorporated by reference into Part II of this Annual Report on Form 10-K.

CITIZENS HOLDING COMPANY

FORM 10-K

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CITIZENS HOLDING COMPANY

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PART I

Cautionary Note 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;
- risks associated with national and global events, such as the conflicts between Russia and Ukraine and between Israel and Hamas, as well as supply chain disruptions;
- risks associated with the failure of Silicon Valley Bank, Signature Bank and First Republic Bank, which have resulted in significant market volatility and less confidence in depository institutions;
- internal and external factors affecting net interest margin;
- adverse changes in asset quality and loan demand, and the potential insufficiency of the allowance for credit 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;
- natural disasters, civil unrest, epidemics (including any re-emergence of the COVID-19 pandemic) and other catastrophic events in the Company's geographic area;
- the impact of increasing inflation rates on the general economic, market or business conditions;
- 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, in particular with respect to deposits, 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;
- climate change and societal responses to climate change could adversely affect the Company's business and results of operations, including indirectly through impact to its customers;
- 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;
- increased cybersecurity risk, including network breaches, business disruptions or financial losses;
- 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. Please also refer to Item 1A, "Risk Factors," for a detailed discussion of the risks related to the Company, the Bank in particular, and the banking industry generally.

ITEM 1. BUSINESS.

BACKGROUND

The Company is a one-bank holding company incorporated under the laws of the State of Mississippi on February 16, 1982. The Company is the sole shareholder of the "Bank. The Company does not have any subsidiaries other than the Bank. The "Company," "we," or "our," as used herein, includes the Bank, unless the context otherwise requires. All dollar amounts appearing in this report are in thousands unless otherwise noted or the context otherwise dictates.

The Bank was opened on February 8, 1908 as The First National Bank of Philadelphia. In 1917, the Bank surrendered its national charter and obtained a state charter, at which time the name of the Bank was changed to The Citizens Bank of Philadelphia, Mississippi. At December 31, 2023, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of $1,405,202 and total deposits of $1,170,311. For more information regarding the assets, revenue and profits of the Company, refer to the Consolidated Financial Statements of the Company contained in Item 8, "Financial Statements and Supplementary Data." The Company's only reportable segment is the assets and cash flow of the Bank, resulting in revenues of $58,032, operating profit of $1,780 and total assets of $1,404,597 for the Company as of December 31, 2022.

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

OPERATIONS

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

Revenues from the Company's lending activities constitute the largest component of the Company's operating revenues. Revenue from loan interest and fees made up 56.5% of gross revenues in 2023, 53.8% in 2022 and 61.6% in 2021. Loan demand was stagnant and loan yields compressed due to the low-rate environment coupled with aggressive loan terms offered by other financial institutions. The Company's primary lending area is the entire state of Mississippi and contiguous states. The Company continues to look for areas of growth within the state of Mississippi and surrounding states but, occasionally the Company extends out-of-area credit to borrowers who are considered to be low risk, as defined within the Bank's lending policy. The Company is not dependent upon any single customer or small group of customers, and it has no foreign operations.

The Company's market area has historically been rural, however, since 2008, the Company has continued to expand into larger metropolitan areas and now serves a number of larger growth areas with Jackson, population 138,998, Gulfport, population 72,105, Hattiesburg, population 48,173, Biloxi, population 49,241, and Meridian, population 33,816, being the largest markets. The economy throughout Mississippi is becoming more diverse but agriculture and manufacturing continue to be the largest industries in Mississippi. For more information regarding revenue from external customers for the last three fiscal years, attributed by geographic region, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in the Company's Annual Report and attached as an exhibit hereto.

The Company has historically made, and intends to continue to make, most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction, and commercial real estate loans. At December 31, 2023, approximately 82.7% of the Company's loan portfolio was attributed to real estate lending, 14.6% of the Company's loan portfolio was comprised of commercial, industrial and agricultural production loans, and consumer loans made up the remaining 2.7% of the Company's total loan portfolio.

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

All loans in the Company's portfolio are subject to risk based on the state of both the local and national economy. As our footprint expands, the Company's portfolio risks are more closely aligned with the state economy. The state economy remains stable after having an increase in unemployment due to the pandemic with unemployment rates having improved to pre-pandemic levels. The state economy is expected to remain stable. The national economic outlook remains uncertain as it relates to inflation and rising interest rates and the ultimate impact of monetary policy. Therefore, it is still uncertain how the recovering economies on the local, state and national levels will affect the Company in the future.

The Company continues to invest in technology as we understand it is necessary to compete in today's market. The Company has the technology for consumers to perform many of the routine, transaction-related items through its online and mobile platforms. Additionally, the Company continues to build out a robust treasury management suite of products for business banking such as remote deposit capture, ACH transactions and wire transfers. The Company is evolving with the market to ensure we continue to offer a great customer experience that they have come to expect from the Company.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Stacy M. Brantley, 50, was employed by the Bank in February of 2023. He was named President and Chief Executive Officer of the Bank. From 2009 to February 2023, he served as Executive Vice President and Chief Banking Officer of Morris Bank in Dublin, GA. Prior to that role, he served as Chief Financial Officer of Magnolia Bankshares, Inc. in Eastman, GA. Prior to that role, he served as a Senior Accountant at a regional CPA firm in Georgia.

Phillip R. Branch, 40, has been employed by the Bank since 2018. He has served as Senior Vice-President and Chief Financial Officer of the Bank since October 2020. Prior to October 2020, Mr. Branch held the title of Vice-President and Comptroller of the Bank from 2018 until 2020. Prior to joining Citizens, Mr. Branch was a Senior Manager in the Financial Institutions practice of HORNE LLP, beginning in September 2006, serving banks throughout the southeastern United States. Mr. Branch has been a Certified Public Accountant since 2009.

EMPLOYEES

The Company has no employees other than three Bank officers who provide services to the Company. These officers receive no compensation from the Company for their services to it as their compensation is paid by the Bank. At December 31, 2023, the Bank employed 246 full-time equivalents. The Bank is not a party to any collective bargaining agreements, and employee relations are considered to be good.

SUPERVISION AND REGULATION

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

General

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

Capital Standards

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

Under those guidelines, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Under the current risk-based capital adequacy guidelines, we are required to maintain (1) a ratio of common equity Tier 1 capital (“CET1”) to total risk-weighted assets of not less than 4.5%; (2) a minimum leverage capital ratio of 4%; (3) a minimum Tier 1 risk-based capital ratio of 6%; and (4) a minimum total risk-based capital ratio of 8%. CET1 generally consists of common stock, retained earnings, accumulated other comprehensive income and certain minority interests, less certain adjustments and deductions. In addition, we must maintain a “capital conservation buffer,” which is a specified amount of CET1 capital in addition to the amount necessary to meet minimum risk-based capital requirements. The capital conservation buffer is designed to absorb losses during periods of economic stress. If our ratio of CET1 to risk-weighted capital is below the capital conservation buffer, we will face restrictions on our ability to pay dividends, repurchase our outstanding stock and make certain discretionary bonus payments. The required capital conservation buffer is 2.5% of CET1 to risk-weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements.

Management believes that, as of December 31, 2023, the Company and the Bank met all capital adequacy requirements under Basel III. Management will continue to monitor these and any future proposals submitted by the Company’s and Bank’s regulators.

Prompt Corrective Action and Other Enforcement Mechanisms

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

Safety and Soundness Standards

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

Restrictions on Dividends and Other Distributions

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

The approval of the Mississippi Department of Banking and Consumer Finance is also required prior to the Bank paying dividends. The department's regulations limit dividends to earned surplus in excess of three times the Bank's capital stock. At December 31, 2023, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was approximately $104,804, or 174.5% of the Bank's consolidated net assets.

FRB regulations limit the amount the Bank may loan to the Company unless those loans are collateralized by specific obligations. At December 31, 2023, the maximum amount available for transfer from the Bank in the form of loans was $6,006, or 10% of the Bank's consolidated net assets. The Bank does not have any outstanding loans with the Company.

FDIC Insurance Assessments

The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor, through the Deposit Insurance Fund ("DIF") and safeguards the safety and soundness of the banking and thrift industries. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The FDIC's deposit insurance premium assessment is based on an institution's average consolidated total assets minus average tangible equity.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, the Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings.

Other BHC Act Provisions

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

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

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

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

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

Community Reinvestment Act

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

The FDIC examined the Bank on September 24, 2019 for its performance under the CRA.... The Bank was rated Satisfactory during this examination, and the FDIC found no discriminatory practices or illegal discouragement of applications.

Consumer Protection

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

Anti-Money Laundering Efforts

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

Corporate Governance

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

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

Impact of Monetary Policies

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

Future Legislation

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

COMPETITION

The banking business is highly competitive. The Company's primary market area is the entire state of Mississippi and contiguous states. The Company continues to look for areas of growth in the state of Mississippi and surrounding states but, occasionally the Company extends out-of-area credit to borrowers who are considered to be low risk, as defined within the Bank's lending policy. The Company competes with local, regional and national financial institutions throughout the state in obtaining deposits, lending activities and providing many types of financial services. The Company also competes with larger regional banks for the business of companies located in the Company's market area.

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

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

Currently, there are approximately fifty different financial institutions in the Company's market competing for the same customer base. According to the FDIC's Summary of Deposits that is collected as of June 30 each year, the Company's market share in its market area was approximately 4.14% at June 30, 2023.The Company competes in its market for loan and deposit products, along with many of the other services required by today's banking customer, on the basis of availability, quality and pricing. The Company believes it is able to compete favorably in its markets, in terms of both the rates the Company offers and the level of service that the Company provides to its customers.

AVAILABILITY OF INFORMATION

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

On December 1, 2023, the Company notified the Nasdaq Stock Market, LLC ("Nasdaq") of its intent to file a Form 25 with the SEC to effect the voluntary delisting of the Company's common stock from Nasdaq. On December 11, 2023, the Company filed the Form 25 with the SEC, and the Company's common stock began trading on the OTCQX Market on December 15, 2023. On December 29, 2023, the Company filed a Form 15 to deregister its common stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which will become effective on March 28, 2024. On January 3, 2024, the Company filed a Form 15 to report the automatic suspension of its duty to file reports with the SEC under Section 15(d) of the Exchange Act. The Company's obligation to file periodic reports under the Exchange Act has been suspended, subject only to its obligation to file this Form 10-K for its 2023 fiscal year.

ITEM 1A. RISK FACTORS.

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

Risks Related to The Company’s Business and Industry

The Company is subject to interest rate risk.

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

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

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

Interest rates increased significantly in 2022 and 2023, and these increases may continue in as the U.S. government attempts to slow economic growth to counteract rising inflation. Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the results of operations of the Company, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company’s financial condition and results of operations. For the reasons set forth above, an increase in interest rates generally as a result of such a credit rating downgrade could adversely affect our net interest income levels, thereby resulting in reduced earnings, and reduce loan demand. Volatility in interest rates may also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as United States Government and Agency securities and other investment vehicles, including mutual funds, which generally pay higher rates of return than financial institutions because of the absence of federal insurance premiums and reserve requirements. Disintermediation could also result in material adverse effects on the Company’s financial condition and results of operations.

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

The Company is subject to risks related to recent events impacting the financial services industry.

The high-profile bank failures of Silicon Valley Bank and Signature Bank in March 2023 and First Republic Bank in May 2023 have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks. These market developments have negatively impacted customer confidence in the safety and soundness of regional banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact our liquidity, cost of funding, loan funding capacity, net interest margin, capital and results of operations. These events are occurring during a period of continued interest rate increases by the Federal Reserve which, among other things, have resulted in unrealized losses in longer-duration securities held by banks, increased competition for bank deposits and the possibility of an increase in the risk of a potential recession. These recent events have, and could continue to, adversely impact the market price and volatility of the Company’s common stock.

These rapid bank failures have also highlighted risks associated with advances in technology that increase the speed at which information, concerns and rumors can spread through traditional and new media, and increase the speed at which deposits can be moved from bank to bank or outside the banking system, heightening liquidity concerns of traditional banks. While regulators and large banks have taken steps designed to increase liquidity at regional banks and strengthen depositor confidence in the broader banking industry, there can be no guarantee that these steps will stabilize the financial services industry and financial markets. In addition, regulators may adopt new regulations or increase FDIC insurance costs, which could increase our costs of doing business.

The Company is subject to lending risk.

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

As of December 31, 2023, approximately 80.7% of the Company’s loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company’s financial condition and results of operations.

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

As business necessitates, the Company forecloses on and takes title to real estate serving as collateral for loans. The amount of other real estate held by the Company may increase in the future as a result of, among other things, business combinations, increased uncertainties in the housing market or increased levels of credit stress in residential real estate loan portfolios. Increased other real estate balances could lead to greater expenses as the Company incurs costs to manage, maintain and dispose of real properties as well as to remediate any environmental cleanup costs incurred in connection with any contamination discovered on real property on which the Company has foreclosed and to which the Company has taken title. As a result, the Company's earnings could be negatively affected by various expenses associated with other real estate owned, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with real property ownership, as well as by the funding costs associated with other real estate assets. The expenses associated with holding a significant amount of other real estate could have a material adverse effect on the Company's financial condition or results of operations.

The allowance for possible loan losses may be insufficient.

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

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

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

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

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

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

The Company is subject to extensive government regulation and supervision.

The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations and supervisory guidance affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation or statutes, regulations, policies and supervisory guidance, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of nonbanks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, civil money penalties, other sanctions by regulatory agencies and/or reputational damage. In this regard, government authorities, including bank regulatory agencies, continue to pursue enforcement agendas with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. Any of the foregoing could have a material adverse effect on the Company's financial condition or results of operations.

We are subject to claims and litigation.

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

The Company operates in a highly competitive financial services industry.

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have greater financial resources. Such competitors primarily include banks, as well as community banks operating nationwide and regionally within the various markets in which the Company operates. The Company also faces competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Additionally, fintech developments, such as blockchain and other distributed ledger technologies, have the potential to disrupt the financial industry and change the way banks do business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation.

Some of the Company’s competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many of the Company’s larger competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company.

The Company’s ability to compete successfully depends on a number of factors, including: the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets; the ability to continue to expand the Company’s market position through organic growth and acquisitions; the scope, relevance and pricing of products and services offered to meet customer needs and demands; the rate at which the Company’s introduces new products and services relative to its competitors; and industry and general economic trends. Failure to perform in any of these areas could significantly weaken the Company’s competitive position, which could adversely affect the Company’s financial condition or results of operations.

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

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

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

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

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

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

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at an adequate level. The FDIC may increase these rates and impose additional special assessments in the future, which could have a material adverse effect on future earnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company continually encounters technological change and we may not have the resources to implement new technology.

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

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

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

The Company is subject to accounting estimate risks.

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

Risks Associated With the Company's Common Stock

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

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

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

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

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

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

General Risk Factors

The Company is subject to risk from adverse economic conditions.

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

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

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

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

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

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

The Bank has branches along the coast of Mississippi that are subject to risks from hurricanes from time to time. Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the ability of the Company to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause the Company to incur additional expenses. The occurrence of any such event could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The Company's stock price can be volatile.

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

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock performance of other companies that to be peers;
- perceptions in the marketplace regarding the Company or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations involving the Company or its competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- volatility affecting the financial markets in general.

General market fluctuations, the potential for breakdowns on electronic trading or other platforms for executing securities transactions, industry factors and general economic and political conditions could cause the Company's stock price to decrease regardless of operating results.

Climate change and societal responses to climate change could adversely affect the Company's business and results of operations, including indirectly through impact to its customers.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. The United States Congress, state legislatures and federal and state regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits and the implementation of significant operational changes, each of which may require businesses to expend significant capital and incur compliance, operating, maintenance and remediation costs. Consumers and businesses also may change their behavior on their own as a result of these concerns.

It is not possible to predict how climate change may impact the Company's financial condition and operations; however, the Company's operates in areas where its business and the activities of its customers could be impacted by the effects of climate change. The effects of climate change may include increased frequency or severity of weather-related events, such as severe storms, hurricanes, flooding and droughts and rising sea levels. These effects can disrupt business operations, damage property, devalue assets and change customer and business preferences, which may adversely affect borrowers, increase credit risk and reduce demand for the Company's products and services. The Company and its customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. The Company and its customers may face cost increases, asset value reductions, operating process changes and the like. The impact to the Company's customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. In addition, the Company could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. The Company's efforts to take these risks into account may not be effective in protecting it from the negative impact of new laws and regulations or changes in consumer or business behavior and could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

General. The Company's information security program, including its processes with respect to cybersecurity, is focused on protecting our systems, networks, and data from unauthorized access by a third party. Concerns about cybersecurity risks impact, at some level, every facet of the Company's operations, from the way we structure the services we offer, to how we communicate with our customers, to our interactions with and training of employees, and to the expenditures we make when expanding and enhancing our technological infrastructure. We expect this continue to be the case as cybersecurity threats, and the means to respond to those threats, continue to evolve.

The Company has adopted a defense-in-depth philosophy that relies on multiple systems and processes to reasonably provide for the confidentiality, integrity, and availability of our systems, networks, and data. Features of our information security include:

•Documentation: We have written policies and procedures that delineate the roles and responsibilities of the Company's Board of Directors, executive management, and other employees, as well as outside parties, with respect to the various aspects of the information security program. This documentation helps to align the entire information security program with our efforts to maintain the integrity of the Company's cybersecurity. These policies and procedures are reviewed and updated at least annually.

•Separation of duties: Separation of duties means that, where appropriate, a task is designed to ensure that more than one person or group is responsible for its completion. We believe that separation of duties helps to prevent fraud, misuse, or other security compromise, and we apply this concept when we delegate administrative and oversight responsibilities to multiple groups for certain aspects of the information security program, including identity and access management, network management, system administration, policy oversight, monitoring, and alerting.

•The principle of least privilege: Access approval for the Company's employees is coordinated between an employee's manager, the Company's human resources department and the Information Technology Service Desk. The goal is to give an employee access rights to our data, applications, and other information resources only to the extent necessary for the employee to perform the functions of the particular job. Any change in employment responsibilities that requires access changes is implemented using the same access approval procedures. Finally, all remote access into the Company's networks must include approval by the Information Security Officer (which we refer to as the "ISO").

•Vulnerability and patch management: The Company's vulnerability management program includes internal and external scanning using third-party tools and services. Software patches are deployed based on criticality of vulnerability. Further, we track our performance in implementing patches, and if implementation timing falls below performance expectations, management will take steps to identify and remediate the root causes of implementation delays.

•Risk assessments: At least annually, management conducts risk assessments to assess the existence, severity and trends of cybersecurity risks and other risks that the Company's information security program faces. The scope of an individual risk assessment can be the whole organization, parts of the organization, an individual information system, specific system components, or services.

•Log management: System security logs are consolidated by the Company's Security Incident and Event Management system and are reviewed by the Bank's contracted Managed Service Security Provider via both automatic and manual processes for anomalous behavior.

•Incident response: The incident response process is designed to, among other things, promptly elevate a cybersecurity threat or incident to the parties responsible for leading our efforts to identify, contain and mitigate the threat or incident, notify impacted customers or other third parties and comply with applicable law, regulations, and regulatory expectations.

•Employee training: Information security is an integral component of our employee training program. Training includes efforts to maintain security awareness among employees at all times by means of company-wide communications of cybersecurity risks or incidents.

The information security program applies to all the Company's business lines and employees as well as to vendors and other third parties with access to the Company's information systems or its confidential and proprietary information. Whenever we consider a new product or service to offer to its clients, or a new means of offering or providing an existing product or service, or a new back-office process or procedure, the implications to the Company's information security are required to be considered.

Our ISO leads the Company's information security team. The Board of Directors oversee our information security team, receiving regular updates related to the material features of the information security program, our success and failures in maintaining information security and emerging threats and management's proposed response thereto.

Strategy and Testing. As mentioned above, the Company employs a layered, defense-in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. We also employ a variety of preventative and detective tools to monitor, block and provide alerts regarding suspicious activity and to report on any suspected threats. These controls include appropriate access controls based on least privilege, multifactor authentication for remote and privilege access, and encryption to protect data. The information security program is designed to comply with applicable laws and regulations and is driven by industry standards for financial institutions, including the Federal Financial Institutions Examination Council ("FFIEC") Cybersecurity Assessment Tool. We work closely with government and industry associations to stay abreast of developments and share best practices with respect to cybersecurity. The following paragraphs describe how we test, or otherwise obtain feedback about, the Company's cybersecurity and other information security. The feedback we develop through testing and assessment, in addition to information about cybersecurity threats or incidents impacting other entities, is incorporated into the Company's information security program to enhance our cybersecurity; in certain circumstances a new or emerging cybersecurity threat may require modifications to how we conduct business.

The Company's information security team utilizes the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security version of the FFIEC Cybersecurity Assessment Tool to perform an annual assessment of our information security program. The assessment provides a repeatable and measurable process for institutions to measure their cybersecurity preparedness over time. The assessment incorporates cybersecurity-related principles from the FFIEC Information Technology Examination Handbook and regulatory guidance, and concepts from other industry standards.

The assessment consists of two parts: Inherent Risk Profile and Cybersecurity Maturity. The Cybersecurity Maturity aspect of the assessment is designed to help management measure the institution's level of risk and corresponding controls. The levels range from baseline to innovative. Cybersecurity Maturity includes tests to determine whether an institution's behaviors, practices and processes can support cybersecurity preparedness within the following five domains:

- Cyber risk management and oversight
- Threat intelligence and collaboration
- Cybersecurity controls
- External dependency management
- Cyber incident management and resilience

We also retain third parties to test the effectiveness of our cybersecurity efforts. Annually, we obtain independent third-party audits of the information security program, including program maturity and overall control effectiveness. Each year we engage a third-party security firm to conduct both external and internal penetration tests. The goal of these assessments is to discover vulnerabilities in the Company's in-scope corporate networks. When testing reveals potential vulnerabilities in the Company's security, management works to develop appropriate mitigation plans to resolve any outstanding issues; we also consider other recommendations to enhance our cybersecurity that these security firms may offer, implementing those that management concludes are appropriate within the context of the Company's information security program and processes.

In addition to audits and testing by third party security firms, our information security program and infrastructure is subject to supervision by the FDIC and the DBCF, including regular in-depth examinations by subject-matter experts from the FDIC and DBCF. The laws and regulations that these regulators administer impose very high expectations on the Company with respect to its information security policies, procedures, processes, and controls. In particular, the Interagency Guidelines

Establishing Information Security Standards (the "Guidelines") require us to implement a comprehensive written information security program that includes administrative, technical and physical safeguards designed to (1) ensure the security and confidentiality of customer information; (2) protect against any anticipated threats or hazards to the security or integrity of such information; (3) protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer; and (4) ensure the proper disposal of customer information and consumer information. We also must comply with the information sharing requirements and restrictions enacted pursuant to the GLBA. The regulators' supervision of the Company is designed to ensure, among other things, that our information security program meets all the standards set forth in the Guidelines and that we operate in compliance with the GLBA and all other applicable information security laws and regulations. Finally, in addition to external scrutiny, our internal audit department reviews our compliance with the Guidelines, the GLBA and other laws and regulations, including those related to information security. If any of these examinations identify deficiencies or areas for improvement, the Company's information security team works with management to act as promptly as reasonably possible to address the action item resulting from any such examination or review.

Diligence of Vendors and Other Third Parties. As noted above, the Company's information security program applies to our vendors and other third parties (referred to collectively as "vendors") with access to our information systems and networks and/or confidential and proprietary information. Before we grant access to the Company's systems, or a vendor otherwise obtains access to the Company's confidential and proprietary information, our information security team assesses the vendor's information security program. We review the vendor's information security policy (to the extent the third party is willing to provide a copy of such policy), information security audits, service organization reports and similar information; the team will also investigate the background, reputation and history of prior cybersecurity incidents of such vendor or other third party. If the information security team is not satisfied that the vendor's information security infrastructure is adequate to reasonably protect the Company's systems and confidential and proprietary information from unauthorized access, and there is no suitable solution to address the information security team's concerns, then we will not engage such vendor.

The vendors we retain are also categorized by the level of risk that the vendor presents to us, of which information security risk is a component. The information security team annually reviews those vendors in the "high risk" category and periodically reviews other vendors. This review includes obtaining updated information security audits and service organization reports, where available, and otherwise analyzing whether the vendor's cybersecurity risk profile has materially changed.

The information security team's review process does not, and cannot, guarantee that a Company vendor will not suffer a cybersecurity incident that impacts us. Due to the possibility that a vendor's information security may be breached, we also negotiate provisions in vendor contracts that address cybersecurity incidents. In addition to including provisions that address the parties' relative responsibility for damages resulting from a cybersecurity incident at a vendor, these contracts also typically include provisions to ensure that the Company receives timely and complete notification of a cybersecurity incident and cooperation in responding thereto so that we can assess the extent of the incident's impact on the Company's systems or information, mitigate any adverse effects arising therefrom and comply with any customer or regulation notification requirements and other legal, regulator or contractual obligations.

Incident Response. For those situations where a cybersecurity threat or incident arises, whether internal to the Company or relating to one of its vendors, we have also organized an incident response team. The incident response team includes representatives from the information technology, operations, risk management, legal (including securities law counsel), privacy and finance departments, among others. In addition to meeting quarterly, the incident response team (or a subset of the team) gathers whenever there is a threatened or actual breach of the Company's information security (whether involving an external actor or an internal party) to determine the nature and extent of the threatened or actual breach and, if appropriate, the steps to take in response thereto to protect the Company's information security and mitigate any harm that has already occurred. The team is also responsible for ensuring the Company complies with legal and regulatory requirements (including notifying affected customers and regulators and making any filings required by the securities laws). The activities of our incident response team are reported to the Board's Enterprise Risk Management Committee.

The Company also maintains a cyber insurance policy that provides cyber liability coverage.

Employee Training and Security Awareness. All employees are required to complete quarterly security awareness training programs. Courses within the training program include general cybersecurity best practices as well as a course specifically related to social engineering, email, and social media security. The Company also conducts routine internally focused exercises to help raise employee awareness of the risks associated with cybersecurity. For example, over the course of 2023, employees received at least one email per month designed to test employees' ability to identify and avoid potential "phishing" emails, and those employees that fail this phishing test are assigned additional training. In addition, annually the Company's incident response team engages in a cyber-attack tabletop exercise to train the incident response team in overcoming a simulated attack against The Citizens Bank's payment systems and processes.

Governance and Oversight

Management Role. The Company takes a layered approach to the governance of its cybersecurity risk management. The first line of defense against cybersecurity risk is the company's information security team, led by the ISO. This team is primarily responsible for promptly identifying cybersecurity risks associated with our existing and anticipated operations and once identified, assessing as to the level that each cybersecurity risk poses to us, and then controlling or mitigating to the extent reasonably possible (in the context the Company's operations and resources, and competitive factors affecting how banks and other financial services companies conduct operations, among other things).

The efforts of our information security team to address cybersecurity risk are reviewed by the Chief Risk Officer, which oversees our enterprise risk management program. The Chief Risk Officerfocuses on the quality of the Company's risk management process in order to manage risks within acceptable tolerance levels. As it pertains to cybersecurity risk, the Chief Risk Officer challenges the processes that the information security team has implemented to identify, assess, control, and mitigate cybersecurity risk. The Chief Risk Officer collaborates with the ISO and other business unit owners impacted by our cybersecurity risk management practices to develop and monitor controls and other processes that mitigate identified risks.

As the third line of defense against cybersecurity risk, our Internal Audit Department, with the assistance of outside experts, annually reviews and tests the Company's processes, including its policies, procedures, and controls, with respect to cybersecurity risk. The Internal Audit Department reports the results of its review, including the steps management intends to take to address any findings, to the Audit Committee of the Board of Directors.

Board Oversight. The Company's Board of Directors oversees the risks related to our technological infrastructure, information security, cybersecurity, business continuity and disaster recovery programs.

ITEM 2. PROPERTIES.

The Company, through the Bank, currently operates from its main office in downtown Philadelphia, Mississippi, and from 27 additional branches in Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Lafayette, Oktibbeha, Rankin, Madison, Harrison, Jackson, Winston, and Kemper counties, Mississippi. Information about these branches, the Bank's main office and its loan production office is set forth in the table below:

NAME OF OFFICE	LOCATION/TELEPHONE NUMBER	BANKING/FUNCTIONS OFFERED
Main Office	521 Main Street Philadelphia, Mississippi (601) 656-4692	Full Service; 24 Hour Teller
Eastside Branch	599 East Main Street Philadelphia, Mississippi 601) 656-4976	Full Service; 24 Hour Teller
Westside Branch	912 West Beacon Street Philadelphia, Mississippi (601) 656-4978	Full Service; 24 Hour Teller
Union Branch	502 Bank Street Union, Mississippi 656-4879	Full Service; 24 Hour Teller

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NAME OF OFFICE	LOCATION/TELEPHONE NUMBER	BANKING/FUNCTIONS OFFERED
Carthage Branch	301 West Main Street Carthage, Mississippi (601) 257-4525	Full Service; 24 Hour Teller
Ridgeland Branch	320 Highway 51 North Ridgeland, Mississippi (601) 519-4020	Deposits; Loans
Sebastopol Branch	24 Pine Street Sebastopol, Mississippi (601) 625-7447	Full Service; 24 Hour Teller
DeKalb Branch	176 Main Avenue Service DeKalb, Mississippi (601) 743-2115	Full Service
Kosciusko Branch	775 North Jackson Avenue Kosciusko, Mississippi (662) 289-4356	Full Service; 24 Hour Teller
Scooba Branch	27597 Highway 16 East Scooba, Mississippi (662) 476-8431	Full Service;
Meridian Eastgate Branch	1825 Highway 39 North Meridian, Mississippi (601) 693-8367	Full Service; 24 Hour Teller
Decatur Branch	15330 Highway 15 South Decatur, Mississippi (601) 635-2321	Full Service; 24 Hour Teller
Forest Branch	247 Woodland Drive North Forest, Mississippi (601) 469-3424	Full Service; 24 Hour Teller
Louisville Main Branch	906 S Columbus Avenue Louisville, MS (662) 773-6261	Full Service; 24 Hour Teller
Louisville Industrial Branch	1760 S Church Avenue Louisville, MS (662) 773-6261	Drive Up
Noxapater Branch	45 East Main Street Noxapater, MS (662) 724-4261	Deposits
Starkville Branch	201 Highway 12 West Starkville, MS 39759 (662) 323-1420	Full Service;
Collinsville Branch	9065 Collinsville Road Collinsville, MS 39325 (601) 626-7608	Full Service; 24 Hour Teller

NAME OF OFFICE	LOCATION/TELEPHONE NUMBER	BANKING/FUNCTIONS OFFERED
Hattiesburg	6222 Highway 98 West Hattiesburg, MS 39402 (601) 264-4425	Full Service; 24 Hour Teller
Biloxi Lemoyne	15309 Lemoyne Boulevard Biloxi, MS 39532 (228) 207-2343	Full Service; 24 Hour Teller
Biloxi Cedar Lake	1830 Popps Ferry Road Biloxi, MS 39532 (228) 594-6913	Full Service; 24 Hour Teller
Oxford Branch	902 Sisk Avenue, Suite E Oxford, MS 38655	Full Service; 24 Hour Teller
Gulfport Branch	12008 Hwy 49 Gulfport, MS 39503 (228) 831-3535	Full Service; 24 Hour Teller
Ocean Springs Branch	2702 Bienville Blvd Ocean Springs, MS 39564 (228) 875-3933	Full Service; 24 Hour Teller
Pascagoula Branch	1519 Jackson Ave Pascagoula, MS 39567 (228) 762-3330	Full Service; 24 Hour Teller

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Information required in partial response to this Item 5 can be found under the heading "Market Price and Dividend Information" in the 2023 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information in incorporated herein by reference.

There were no unregistered sales of equity securities not covered by the filing of a Form 10-Q or Form 8-K during the period covered by this filing. There were no repurchases of equity securities not covered by the filing of a Form 10-Q or Form 8-K during the period covered by this filing.

ITEM 6. [RESERVED]

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

Information required in response to this Item 7 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2023, 2022 and 2021" in the 2023 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

Information required in response to this Item 7A can be found under the headings "Quantitative and Qualitative Disclosures about Market Risk" in the 2023 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information required in response to this Item 8 can be found under the heading "Consolidated Financial Statements" and "Quarterly Financial Trends" in the 2023 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

None.

ITEM 9A CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

The management of this Company, with the participation of its principal executive and financial officers, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a – 15(e) and 15d – 15(e) of the Securities Exchange Act of 1934, as amended, in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, the Company's principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2023 (the end of the period covered by this Annual Report on Form 10-K).

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Information required in response to this item can be found under the headings "Management's Assessment of Internal Control over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" in the Company's Consolidated Financial Statements contained in its 2023 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to the internal control over financial reporting in the fourth quarter of 2023 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B OTHER INFORMATION.

INSIDER TRADING ARRANGEMENTS AND POLICIES

During the three months ended December 31, 2023, no "director" or "officer" (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 9C DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

A total of twelve directors currently serve on our Board of Directors. There are three classes of directors. Currently, four directors are in Class I, four directors are in Class II, and four directors are in Class III. Class I directors, which are Messrs. G. Cronin, D. Kilgore, H. King and J. Voyles, have terms that expire at the 2024 Annual Meeting of shareholders (the "2024 Annual Meeting").

Our Chief Executive Officer does not serve as the Chairperson of our Board of Directors. Our Board of Directors believes that having an outside director serve as the Chairperson helps to ensure that the non-employee directors take an active leadership role on our Board of Directors, and that this leadership structure is beneficial to the Company.

The term of office of each Class I director expires at the 2024 Annual Meeting, the term of office of each Class II director expires at the 2025 annual meeting of shareholders, and the term of office of each Class III director expires at the 2026 annual meeting of shareholders.

Gregory E. Cronin, 61, joined our Board of Directors in 2019. Mr. Cronin is the Gulf Coast Area president of the Bank. Prior to joining the bank in October 2019, Mr. Cronin served as President and CEO of Charter Bank since 2008. As a long-time bank executive, Mr. Cronin provides expertise into the day to day bank operations and the related loan functions.

Jason R. Voyles, 46, joined our Board of Directors in 2021. Mr. Voyles is a licensed real estate broker and has been serving as President of Spectrum Capital since 2006. Prior to that time, Mr. Voyles served as the Vice President of Corporate Development for W. G. Yates and Sons, Inc., a general contractor doing business worldwide, since 2009. As a real estate professional, Mr. Voyles provides a deep knowledge of commercial real estate transactions and as an executive of a real estate company provides a perspective into what our customers value.

David A. King, 69, joined our Board of Directors in 1997 and currently serves on the loan committee. Since 1977, Mr. King has been the proprietor of Philadelphia Motor Company, a company primarily engaged in wholesale and retail auto parts sales. As a small business owner, Mr. King provides a first-hand perspective regarding the needs of a typical small business owner, including loans, deposit operations and other services.

Greg L. McKee, 62, joined our Board of Directors in 2001. Mr. McKee served as the President and Chief Executive Officer of the Bank. Prior to becoming Chief Executive Officer, he was employed as President of the Bank since January 2002. He was previously employed by the Bank as an Executive Vice-President, Senior Vice-President and Vice-President prior to January 2002. As our former Chief Executive Officer, Mr. McKee is uniquely qualified to advise the Board of Directors on our operations, competition and industry.

Terrell E. Winstead, 63, joined our Board of Directors in 2007. Since 1987, Mr. Winstead has been employed by The Molpus Company, now doing business as Molpus Woodlands Group, which acquires, manages, and sells timberland as an investment vehicle for pension funds, college endowments, foundations, insurance and high-net-worth individual investors. During that time, he has served as Controller, Vice President of Finance, Chief Financial Officer, Executive Vice President, and is now President and Chief Executive Officer. As a Certified Public Accountant, Mr. Winstead offers accounting expertise and financial sophistication to the audit committee and to the Board of Directors.

Stacy M. Brantley, 50, joined our Board of Directors in 2023. Mr. Brantley was named President and Chief Executive Officer of the Bank and President of the Company in February 2023. From 2009 to February 2023, he served as Executive Vice President and Chief Banking Officer of Morris Bank in Dublin, GA. Prior to that role, he served as Chief Financial Officer of Magnolia Bankshares, Inc. in Eastman, GA. Prior to that role, he served as a Senior Accountant at a regional CPA firm in Georgia.

Jane D. Crosswhite, 62, joined our Board of Directors in 2020. is the Executive Vice-President and Secretary/Treasurer of Williams Brothers Incorporated, a general merchandise store located in Philadelphia, Mississippi, that was started by her family in 1907. She began working there part-time in 1979 and transitioned to full-time in 1983. Ms. Crosswhite brings a wealth of experience in the retail business and tremendous knowledge of the general economy in our service area.

Craig Dungan, **MD**, 61, joined our Board of Directors in 2008. Dr. Dungan is a physician specializing in gastroenterology and has been associated with Meridian Gastroenterology PLLC since 2004. Prior to that time, he practiced as a member of the Rush Medical Group. As a physician, he brings a unique perspective to the Board of Directors regarding the needs of the medical community, especially as it relates to the Meridian, Mississippi geographic market.

Daniel Adam Mars, 44, joined our Board of Directors in 2007. Mr. Mars is currently serving in the capacity as the business manager for Mars, Mars and Mars, Attorneys-at-Law. Mr. Mars has been the owner of MMM Investments LLC since 2004. As a real estate professional, Mr. Mars' insight into the local real estate market is invaluable to our Board of Directors when evaluating potential real estate loans.

David P. Webb, 64, joined our Board of Directors in 1998. Mr. Webb is a tax attorney and has been engaged in the practice of law since 1986. He is currently a shareholder of the law firm of Baker, Donelson, Bearman, Caldwell and Berkowitz, PC. As a practicing attorney and Certified Public Accountant, Mr. Webb provides both legal and accounting expertise.

Donald L. Kilgore, 74, joined our Board of Directors in 2001. Mr. Kilgore is a practicing attorney for Alford, Thomas & Kilgore after serving in Mississippi Attorney General's Office as an Assistant Attorney General from 2015 until 2019. Prior to that, he served as the Attorney General for the Mississippi Band of Choctaw Indians beginning in March 2005. Prior to that time, he was engaged in the practice of law for 26 years as a partner of the law firm of Alford, Thomas and Kilgore. As a practicing attorney, Mr. Kilgore offers expertise regarding real estate and contract law issues.

Herbert A. King, 72, joined our Board of Directors in 1997 and currently serves as Chairman of our Board of Directors. Mr. King is a civil engineer and has been associated with King Engineering, Inc. since 1990. King Engineering is primarily engaged in general civil engineering and land surveying. As a civil engineer, Mr. King provides insight into the ramifications of certain engineering issues impacting our potential real estate loans.

There are no family relationships between any director, executive officer or persons nominated or chosen to become a director or executive officer, except that David A. King is Caroline Forks uncle.

All of our continuing directors presently serve on the Board of Directors of the Bank.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

Terrell E. Winstead (Chairman), Herbert A. King, Jason R. Voyles, Vincent C. Dungan and Jane D. Crosswhite are the members of the audit committee. Our Board of Directors has determined that each member of the audit committee is an "independent director" as defined in rule 2.5 of the OTCQX Rules for U.S. Companies and that each meets the criteria for independence set forth in Rule 10A-3 under the Exchange Act. Our Board of Directors has determined that Terrell Winstead qualifies as an "audit committee financial expert" as such term is defined under SEC regulations and satisfies the financial sophistication requirements of Rule 5605(c)(2)(A) of the Nasdaq Marketplace Rules. Our Board of Directors has adopted a written charter for the audit committee that details its authority, powers and responsibilities. The committee periodically reviews the charter and makes appropriate revisions. A copy of the audit committee charter can be found on our website, www.citizensholdingcompany.com, under the "Investor Relations—Corporate Governance" tab. The information on our website is not incorporated into this proxy statement.

The audit committee reviews our financial reporting process on behalf of our Board of Directors. The audit committee's duties and responsibilities include the following:

- appointing (which includes the power to dismiss), compensating and overseeing our independent auditors;
- monitoring the integrity of our financial reporting process and system of internal controls;
- monitoring the independence and performance of our independent auditors and internal auditing department;
- reviewing and establishing internal policies and procedures regarding audits, accounting and other financial controls;
- reviewing the adequacy of our internal controls and determining whether new controls or procedures are necessary;
- pre-approving all auditing and permitted non-audit services provided by our independent auditors;
- providing an avenue of communication among our independent auditors, management, the internal auditing department, and our Board of Directors; and
- establishing procedures for (1) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and (2) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters.

During 2023, the audit committee held seven meetings.

Nominating Committee

The members of the nominating committee are David P. Webb (Chairman), David A. King, Jason R. Voyles, and Stacy M. Brantley. Our Board of Directors has determined that each member of the nominating committee is an "independent director" as defined in rule 2.5 of the OTCQX Rules for U.S. Companies. The nominating committee has adopted a charter that details its authority, powers and responsibilities. The committee periodically reviews the charter and makes appropriate revisions. A copy of the nominating committee charter can be found on our website, www.thecitizensbankphila.com/investor-relations, under the "Corporate Governance" tab. The information on our website is not incorporated into this proxy statement.

The nominating committee is responsible for interviewing, evaluating, nominating and recommending individuals for membership on our Board of Directors and its committees. The nominating committee prepared the slate of candidates for election at the Annual Meeting and presented this list to our Board of Directors for their approval.

The nominating committee seeks recommendations from our existing directors to identify potential candidates to fill vacancies on our Board of Directors. The nominating committee will also consider nominees who are recommended by our shareholders. The nominating committee evaluates all nominees for election as a director, whether such individuals are recommended by our current directors, by shareholders or otherwise, using the following criteria:

- the candidate's independence for purposes of the OTCQX Market Rules and SEC rules;
- the candidate's financial sophistication for purposes of service as a member of the audit committee;
- the candidate's experience in banking, or in marketing, finance, legal, accounting or other professional disciplines;
- the candidate's capacity and desire to represent the best interests of the shareholders as a whole and not a special interest group or constituency;
- the candidate's familiarity with and participation in the local community and prominence and reputation in his or her profession; and
- the candidate's record of honest and ethical conduct, personal integrity and independent judgment.

Although the Company has no formal policy regarding diversity, the nominating committee also looks at the potential candidates with a purpose to include a diversity of job and life experiences drawn from shareholders throughout the geographic market served by us. The Company pays special attention to maintain a group of directors from diverse areas of expertise to add value to the Board of Directors and the decisions that they make. The Company believes that a board of directors that draws experience from a variety of professions will have the ability to consider all views prior to making decisions.

The nominating committee held four meetings in 2023.

BOARD MEMBERSHIP, MEETINGS AND ATTENDANCE

Our Board of Directors meets monthly, generally in a joint session with the Board of Directors of the Bank. During 2023, our Board of Directors met 13 times. There were 12 regular monthly meetings and 1 special meeting. Each director attended at least 75% of all meetings held by our Board of Directors and the committees on which he served. The members of our Board of Directors who are "independent directors," as defined in rule 2.5 of the OTCQX Rules for U.S. Companies, met in executive session one time in 2023.

Our Board of Directors does not have a policy regarding director attendance at the Annual Meeting. Last year, all of the directors attended the Annual Meeting, and we expect that all directors will attend this year's Annual Meeting.

Our Board of Directors has established an audit committee, a compensation committee, and a nominating committee. The composition and responsibilities of the audit committee and the nominating committee are described below. The composition and responsibilities of the compensation committee are described in the "Compensation Discussion and Analysis" section below.

CORPORATE GOVERNANCE MATTERS; RISK OVERSIGHT AND MANAGEMENT

Both the Board of Directors as a whole and its respective committees serve an active role in overseeing management of our risks. Our Board of Directors regularly reviews, with members of our senior management and outside advisors, information regarding our strategy and key areas of the Company including operations, finance, legal and regulatory, as well as the risks associated with each. The compensation committee is responsible for overseeing the management of risks relating to our executive compensation plans and reviewing the risks associated with our overall compensation practices and policies for all of our employees. The audit committee oversees risks associated with financial matters such as accounting, internal controls over financial reporting, tax, fraud assessment and financial policies. The nominating committee manages risks associated with corporate governance policies, the independence of our Board of Directors and potential conflicts of interest.

EXECUTIVE OFFICERS

Stacy M. Brantley and Phillip R. Branch are our executive officers. Information about the age, position and experience of Mr. Branch is listed below. Information about Mr. Brantley appears previously under the heading "Board of Directors." Both of our executive officers are appointed annually by our Board of Directors and serve at the discretion of our Board of Directors.

Name	Age	Position
Phillip R. Branch	40	Mr. Branch has been employed as our Treasurer and Chief Financial Officer since October 2020. He has been employed by the Bank as Vice President since March 2018. Prior to that, he served as a Senior Manager in a regional firm's financial institutions practice serving financial institutions across the Southeast since 2006. He is a licensed Certified Public Accountant in the state of Mississippi.

To the best of our knowledge, during the past ten years, none of the following occurred with respect to any director, director nominee or executive officer: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time, (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses), (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, or any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities, (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed suspended or vacated, (5) being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (i) any federal or state securities or commodities law or regulation; (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease–and–desist order, or removal or prohibition order, or (6) being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self–regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29)), or any equivalent, exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member (covering stock, commodities or derivatives exchanges, or other SROs).

CODE OF ETHICS

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

ITEM 11. EXECUTIVE COMPENSATION.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis ("CD&A") describes the compensation program for our named executive officers ("NEOs"). Our NEOs are Mrs. Brantley and Mr. Branch. As more fully described below, our compensation committee is charged with establishing, reviewing and administering our executive officer compensation program, including making all decisions about the compensation of our NEOs.

The compensation committee is responsible for determining the compensation of our NEOs and our directors. The committee consists of David P. Webb, Herbert A. King, Terrell E. Winstead, Daniel A. Mars, Jane D. Crosswhite, and Donald L. Kilgore, who is the chairman. Each member of the compensation committee is an "independent director," as defined under Rule 2.5 of the OTCQX Rules for U.S. Companies. Each member is also a "non-employee director," as defined in Rule 16b-3 promulgated under the Exchange Act, and each qualifies as an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

The compensation committee has adopted a written committee charter that details its authority, powers and responsibilities. A copy of the charter can be found on our website at www.citizensholdingcompany.com under the "Investor Relations - Corporate Governance" tab. The information on our website is not incorporated into this proxy statement. The compensation committee periodically reviews its charter and makes revisions as it deems appropriate. The compensation committee meets with the frequency necessary to perform its duties and responsibilities. The compensation committee usually makes many of its performance-based decisions at a meeting held in January of each fiscal year, including evaluating the performance of our NEOs during the immediately preceding year, determining the amount of their annual cash bonuses for the preceding year, and determining base salaries for the upcoming fiscal year. Grants of equity compensation are generally made in the second quarter of each year; however, the compensation committee did not make any equity grants to NEOs during 2023 other than the restricted stock grant made to Mr. Brantley in his capacity as a director. The committee met five times during 2023.

Role of Our Executive Officers

Our executive officers compile and provide information and assist in the management and administration of our executive compensation and other benefit plans. Mr. Brantley will make recommendations to the compensation committee regarding the compensation of officers, other than himself.... Our executives' responsibilities may include, but are not limited to, the following:

- recommending pay levels and grants and awards for our officers, other than our President and Chief Executive Officer and the Treasurer and Chief Financial Officer;
- recommending changes to ensure that our compensation programs remain competitive and align with our objectives; and
- providing information to the compensation committee, including but not limited to (1) information concerning Company and individual performance, (2) information concerning the attainment of our strategic objectives, (3) the common stock ownership of each executive officer and his option holdings, (4) equity compensation plan dilution, and (5) compensation and performance data of other similar size banks.

Our executive officers may attend the meetings of the compensation committee, at its request, except that Messrs. Branch and Brantley may not be present during the compensation committee's deliberation of their individual compensation. A portion of each of the four compensation committee meetings held during 2023 was an executive session during which none of our executive officers were present.

Compensation Consultants

The compensation committee has the power and authority to hire outside advisors or consultants to assist the compensation committee in fulfilling its responsibilities to review our director and executive compensation programs. Prior to 2020, the compensation committee engaged Bruce Hlavacek, a registered representative of The Leaders Group, to review the Bank's Supplemental Executive Retirement Program (the "SERP"), and the program was further reviewed by iZale Financial Group and our independent auditors. Based on those reviews, we modified the SERP to provide for lower forecasts in the rate of growth in executive pay. The SERP is described more fully in this CD&A.

In 2018, the compensation committee retained the services of ChaseCompGroup to provide an independent review of the directors' and executive officers' compensation programs and to make recommendations to the committee. The compensation committee has utilized some of the results of this study in formulating the current level of compensation for the executive officers and directors of the Company.

Compensation Program Objectives

The fundamental purpose of our executive officer compensation program is to assist us in achieving our financial and operating performance objectives. Specifically, our compensation program has three basic objectives:

- to retain and motivate our executive officers, including the NEOs;
- to reward executive officers upon the achievement of measurable corporate, business unit and individual performance goals; and
- to align each executive officer's interests with the interests of our shareholders.

Specifics of the Compensation Program

The elements of the executive compensation program have remained substantially the same for several years. We believe our programs are effectively designed and are working well to align our named executive officers' interests with the interests of our shareholders and are instrumental to achieving our business strategy. In determining executive compensation for 2023, the compensation committee considered that a vast majority of shareholders (approximately 69.5%) voted to approve the "say-on-pay" proposal at our 2023 Annual Meeting. As a result, the compensation committee continued to utilize the same elements it has used in previous years and will continue to consider shareholder concerns and feedback in the future.

Our compensation program includes four basic elements:

- *Base salary*: This element is intended to reflect an executive officer's job responsibilities and his value to us. It is also intended to retain our executive officers and to acknowledge each executive officer's individual efforts in furthering our strategic goals.
- *Annual cash bonus*: An annual cash bonus is one of the performance-based elements of our compensation program. It is intended to motivate our executive officers and to provide an immediate reward for short-term (annual) set performance.
- *Equity-based incentives*: Grants of equity awards are the method we use to align the long-term interests of our NEOs with the interests of our shareholders, which is another element of performance-based compensation.
- *Welfare benefits and retirement plans*: These benefits and plans are intended to retain qualified executive officers, by ensuring that our compensation program is competitive and provides an adequate opportunity for retirement savings.

Benchmarking

The compensation committee does not believe it is appropriate to determine total compensation, or any element of compensation, based primarily on benchmarking, which is the practice of setting compensation based upon the compensation practices of other companies similar in size, industry and other characteristics. However, the compensation committee does review the Mississippi Bankers Association Salary Survey as it determines the appropriate salary levels for all our officers and employees, including the NEOs.

Determination of Amounts Allocated to Each Compensation Program Element

The compensation committee does not use a specific formula to determine the amount allocated to each element of our compensation program. Instead, the compensation committee makes individual compensation decisions that provide for adequate exposure to equity, an appropriate mix of short-term and long-term rewards and an adequate performance based component.

Base Salary

Considerations. The compensation committee reviews and adjusts base salary annually. Adjustments are based upon a review of a variety of factors, including the following:

- individual, Company and Bank performance, measured against quantitative and qualitative goals, such as asset and net income performance;
- duties and responsibilities; and
- compensation paid by similar size banks.

Fiscal Year 2023 Decisions. The 2023 base salary of our NEOs is included in the Summary Compensation Table that follows this discussion. For 2023, base salaries increased 4.0% when compared to base salaries paid in 2022. The primary factors evaluated by the compensation committee in connection with the decision to raise base salaries in 2023 were (1) the earnings performance of the Company, and (2) individual performance.

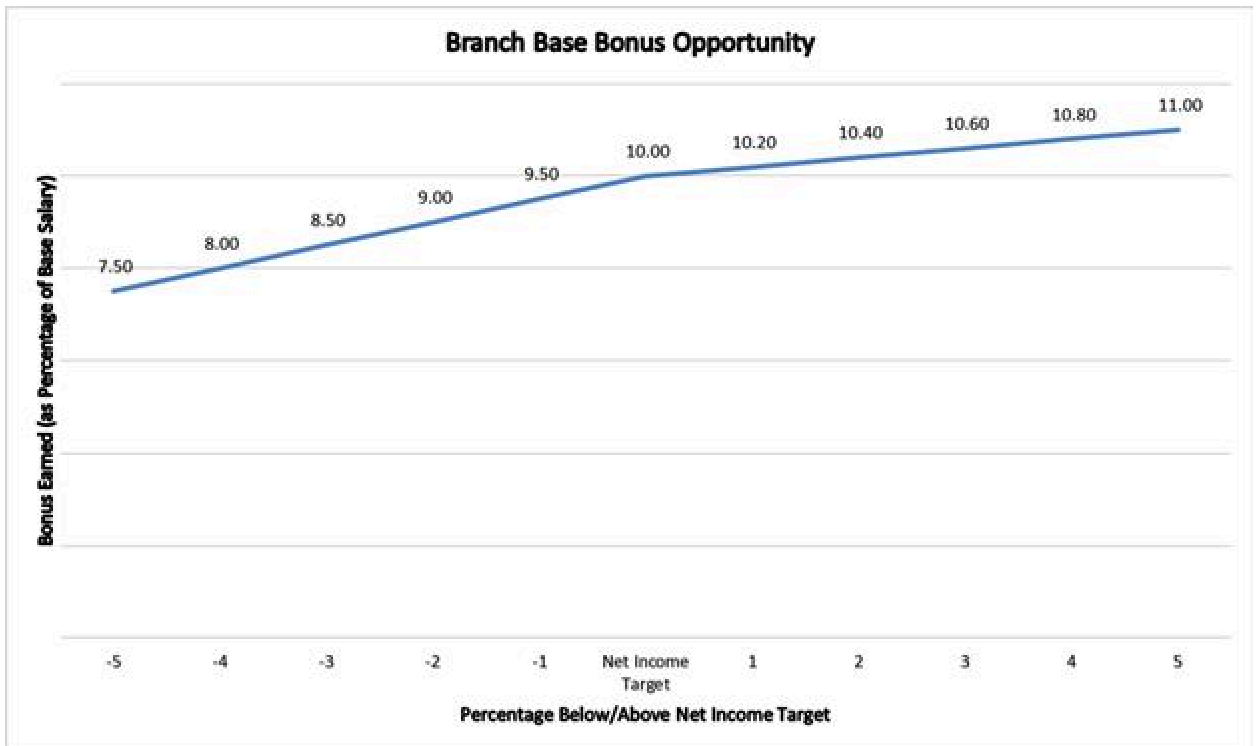
Fiscal Year 2024 Decisions. The compensation committee has set the following base salaries for 2024, which was an increase over the base salary paid in 2023:

Executive Officer	2024 Base Salary	2023 Base Salary	Percentage Increase Over 2023 Base Salary
Stacy M. Brantley	$390,000	$375,000(1)	4.0%
Phillip R. Branch	$192,629	$185,220	4.0%
Greg McKee	$ -	$354,333(2)	N/A

(1) Mr. Brantley started with the Bank effective February 13, 2023.
(2) Mr. McKee retired in 2023.

Annual Cash Bonus

Considerations. At its meeting in January each fiscal year, the compensation committee analyzes our performance, Bank performance and the individual performance of each NEO with the growth of our net income being the primary consideration. For the 2023 fiscal year, the compensation committee determined that Mr. Brantley would be paid a guaranteed cash bonus of 40% of Mr. Brantley's 2023 base salary ("Brantley Base Bonus"). Mr. Branch would be paid a cash bonus of 10% of Mr. Branch's 2023 base salary ("Branch Base Bonus") if our net income attained the income level set by our Board of Directors (the "Net Income Target"). The Brantley Base Bonus was guaranteed and the Branch Base Bonus was subject to adjustment either up or down, based upon the difference between actual net income for 2023 and the Net Income Target. For each 1% increment actual net income varied above the Net Income Target, the Branch Base Bonus was increased by 2%. For each 1% increment actual net income varied below the Net Income Target, the Branch Base Bonus was decreased by 5%. The tables below demonstrate how the Branch Base Bonus would be determined under various scenarios.



Fiscal Year 2023 Decisions. Cash bonuses paid to our NEOs are listed on the Summary Compensation Table, which follows this discussion. In 2023, our net income was not higher than the Net Income Target and accordingly, Mr. Branch received a base bonus of 4% Using the above formula, the compensation committee determined that Mr. Branch should receive a bonus of $7,409.

Fiscal Year 2024 Decisions. For the 2024 fiscal year, the compensation committee is analyzing the current incentive structure as it relates to cash bonuses for Mr. Brantley and Mr. Branch. Changes for fiscal year 2024 and moving forward are being considered, but no formal incentive structure has been approved as of the publication date of this annual report and proxy.

Equity Compensation

Considerations. Prior to 2009, equity compensation was granted under our LTIP, our 1999 Employees' Long-Term Incentive Plan, in the form of stock options, which are used to incentivize long-term performance. In 2013, we adopted the 2013 Incentive Compensation Plan, which provides for various forms of equity awards, including stock options and restricted stock, to incentivize long-term performance. Stock options and restricted stock align management's interests with those of our shareholders. The exercise price for stock options is always the fair market value of our common stock on the grant date, which is the closing market price of our common stock on the date of the grant as quoted on The OTCQX Market (or on the immediately preceding trading date if shares are not traded on the grant date). Unless the compensation committee otherwise provides, restricted stock vest in one year and options vest in six months and one day after grant, and stock options lapse ten years after the grant date. The vesting of restricted stock and options is accelerated and an executive officer's options remain exercisable for not less than six months following a change in control of the Company.

The compensation committee believes that the practice of making grants about the same date each year precludes any inference that we are attempting to manipulate the timing of our equity grants to take advantage of non-public information. We do not backdate options or grant options retroactively. Generally, in determining the amount of any grant, the compensation committee considers:

- the position, responsibility and prior performance of each executive officer;
- his ability to affect corporate performance;
- the value of grants or awards in relation to other elements of total compensation; and
- the number of shares of our common stock that he owns, whether directly or beneficially.

Fiscal Year 2023 Decisions. The Summary Compensation Table and the table entitled Grants of Plan Based Awards, which follow this discussion, each provide specific information about equity awards granted for the 2023 fiscal year. For 2023, the compensation committee granted an equity award to Mr. Brantley for 3,868 shares in relation to his employment agreement and another 750 shares of restricted stock to Mr. Brantley in his capacity as a director.

Welfare and Retirement Plans

Retirement Benefits. We offer our eligible employees, including our NEOs, participation in a tax-qualified defined contribution 401(k) plan, which allows savings for retirement on a tax deferred basis. In 2023, we provided 50% matching contributions, up to 6% of compensation deferred, as well as discretionary non-matching contributions. Both contributions are subject to the completion of a three-year incremental service vesting period. The plan provides for the distribution of account balances following termination of employment, generally in the form of a lump sum. The Summary Compensation Table includes information about our contributions for the 2023 fiscal year.

Supplemental Retirement Benefits. We also maintain a Supplemental Executive Retirement Plan, or SERP, for our NEOs. The SERP is a noncontributory, nonqualified retirement plan. It generally provides for the payment of benefits upon retirement, death or disability. If a participant retires on or after reaching the age 55, the participant is entitled to receive a benefit equal to 50% of the participant's average base salary during the three years preceding retirement. This benefit is reduced by 5% for each year between the participant's age at retirement and his 65th birthday. The benefit is paid in monthly installments over 15 years, commencing the month after the participant's employment ends.

If a participant's employment ends before age 55, he is entitled to receive the vested portion of his benefit in a lump sum the month following termination of employment. Each of our NEO's benefit is fully vested. The Pension Benefits table that follows this discussion sets forth the amount of the benefit that each NEO has accrued under the SERP as of December 31, 2023.

If a participant's employment ends within two years of a change in control, our SERP provides a benefit equal to 50% of his average base salary over the three years preceding his/her termination. Payment is made in monthly installments over 15 years, commencing the month after the participant's employment ends. The term "change in control" is defined to include the following events:

- any person or group becomes the direct or indirect beneficial owner of at least 25% of our or the Bank's outstanding voting stock;
- the completion of a merger of us or the Bank in which we or the Bank, as applicable, are not the surviving entity;
- sale of our or the Bank's assets equal to 25% of the fair market value of all of our or the Bank's gross assets prior to the sale;
- the members of our or the Bank's board of directors immediately prior to a tender offer, exchange offer or contested director election cease to constitute a majority after such transaction; or
- a tender offer or exchange offer is made which, if completed, would result in the offeror owning at least 25% of our or the Bank's outstanding voting stock.

Welfare Benefits. We maintain a number of broad-based benefit plans that are available to all of our employees, including group medical, dental and life insurance plans, some of which are contributory.

Agreements with our NEOs

We have entered into a change in control agreement with Mr. Brantley, and our NEOs are entitled to change in control benefits under the SERP. We believe that change in control payments ensure that personal concerns do not impede transactions that may be in the best interests of our shareholders, such as a sale of the Company to a third party. The agreement is described in the section below titled "Potential Payments upon Termination or Change in Control."

Risks Associated with our Compensation Practices

We believe that any risks arising from our compensation policies and practices for our employees, including our NEOs, are not reasonably likely to have a material adverse effect on us. Our compensation program is relatively simple and has only three material elements: base salary; annual cash bonus; and equity-based incentive compensation. Base salary represents a fixed amount of payment and therefore does not encourage any excessive risk taking. The compensation committee has determined annual bonus amounts by objectively analyzing changes in our net income, which has a positive effect on shareholder value and mitigates any incentive for employees to take excessive risk. Finally, our equity-based incentive compensation program provides for various equity awards, including restricted stock and stock options. We believe that the equity component of our compensation program serves to align the long-term interest of management with the interests of shareholders and thus mitigates excessive risk taking.

Tax Considerations

Section 162(m). Section 162(m) of the Code limits publicly held companies to an annual deduction for federal income tax purposes of $1.0 million for compensation paid to each of its chief executive officer, chief financial officer and the next three most highly compensated executive officers whose compensation is required to be disclosed in the company's annual proxy statement (referred to as "Covered Employees"). Historically, there has been an exception to this $1.0 million limitation for performance-based compensation that meets certain requirements, and the chief financial officer has been excluded from the definition of a Covered Employee. Effective January 1, 2018, under the Tax Cuts and Jobs Act, the exception for performance-based compensation has been eliminated, and compensation paid to the chief financial officer is now subject to the $1.0 million deduction limitation. The amendments to Section 162(m) included a grandfather clause applicable to compensation paid pursuant to a written binding contract in effect on November 2, 2017 that is not materially modified after such date.

Although deductibility of compensation is preferred, tax deductibility is not a primary objective of the Company's compensation programs. The compensation committee believes that achieving its objectives under the compensation philosophy set forth above is more important than the benefit of tax deductibility. The compensation committee reserves the right to maintain flexibility in how it compensates its executive officers that may result in limiting the deductibility of amounts of compensation from time to time. Given our current levels of compensation, the compensation committee does not anticipate that the compensation presently paid to any executive officer will be impacted by the limit or the recent changes to Section 162(m).

Other Statutes and Regulations. In January 2006, we adopted the provisions of FASB ASC Topic 718, *Compensation-Stock Compensation*, which replaced FASB 123R. ASC Topic 718 establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. Under ASC Topic 718, we are required to recognize compensation expense for all share-based payments to our employees, including our NEOs.

Conclusions of the Compensation Committee

After considering all of the elements of compensation paid to our NEOs in 2023, the compensation committee has concluded that the compensation is reasonable and not excessive. This conclusion is based upon a number of factors, including the following:

- our earnings over the previous three years;
- our consistent dividends;
- that meaningful portion of our NEOs' total compensation is subject to the achievement of performance goals; and
- that the total compensation levels for our NEOs are consistent with the compensation levels deemed appropriate by the committee, which are less than those of similar size banks.

Compensation Committee Report

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to our Board of Directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the year ended December 31, 2023.

Compensation Committee: Donald L. Kilgore, Chairman
David P. Webb
Herbert A. King
Terrell E. Winstead
Daniel A. Mars
Jane D. Crosswhite

Compensation Committee Interlocks and Insider Participation

David P. Webb, Donald L. Kilgore, Terrell E. Winstead, Daniel A. Mars, Jane D. Crosswhite and Herbert A. King are the members of the compensation committee, and they determined the compensation for our executive officers in 2023. None of the members of the compensation committee is or was an officer or employee of the Company or the Bank. Please refer back to the Board of Directors section regarding director independence and for Mr. Webb's disclosure of a related party transaction. During 2023, none of our NEOs served as a director or member of the compensation committee of any other entity whose executive officers served on our Board of Directors or compensation committee.

COMPENSATION TABLES

The following table provides information concerning the total compensation earned or paid to our NEOs for services rendered to us or the Bank during the 2023, 2022, and 2021 fiscal years.

Summary Compensation Table

(2023, 2022 and 2021 Fiscal Years)

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(2)	All Other Compensation ($)	Total ($)
Stacy Brantley	2023	375,000	131,250	69,360	-	283,764(3)	859,374
President and Chief	2022	-	-	-	-	-	-
Executive Officer	2021	-	-	-	-	-	-
Phillip R. Branch	2023	185,220	7,409	-	-	28,776(4)	221,405
Treasurer and Chief	2022	176,400	27,536	-	-	26,631	230,567
Financial Officer	2021	167,692	19,404	-	-	25,274	212,370
Greg L. McKee	2023	61,327	-	9,360	131,493	19,571(5)	221,751
Former President	2022	354,333	-	14,288	145,631	53,266	705,796
and Chief Executive Officer	2021	336,842	-	14,220	142,916	53,468	644,888

(1) Neither Mr. Brantley, Mr. Branch, nor Mr. Mckee received any stock options in 2023, 2022, or 2021. These non-cash payments only represent the aggregate grant date fair value, as computed in accordance with FASB ASC Topic 718, of 750 shares of restricted stock granted in 2023 to Mr. Mckee and Mr. Brantley as well as 2022 and 2021 to Mr. McKee in his capacity as a director. The value of the awards shown in this column is based on the grant date closing price.

(2) This amount represents an increase in accrued benefits under our SERP.

(3) For 2023, includes director's fees of $19,300, group life insurance premiums in the amount of $1,333, group health premiums in the amount of $5,409, a signing/moving bonus of $235,000, a car allowance of $10,615, and country club dues in the amount of $9,097

(4) For 2023, includes our matching and profit-sharing contributions to the Bank's 401(k) plan in the amount of $12,766, the value of group life insurance premiums in the amount of $1,318, group health premiums in the amount of $6,491 and country club dues in the amount of $6,300.

(5) For 2023, includes our matching and profit-sharing contributions to the Bank's 401(k) plan in the amount of $6,806, the value of group life insurance premiums in the amount of $128, and group health premiums in the amount of $11,515.

Grants of Plan –Based Awards in 2023

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	Grant Date Fair Value Of Stock and Option Awards ($)(1)
Mr. Brantley	March 1, 2023	3,868	$60,000
Mr. Brantley	April 26, 2023	750	$9,360

(1) This column shows the full grant date fair value of the restricted stock granted in 2023 under ASC 718. Such shares were granted to Mr. Brantley in his capacity as a director.

Mr. Branch was not granted any plan-based awards of stock options or restricted stock in 2023.

The following table includes information about the restricted stock award held by our NEOs at the end of our 2023 fiscal year, which were granted under our LTIP. The exercise price is fair market value on the date of grant, defined as the closing market price of a share of our common stock as quoted on The Nasdaq Global Market.

Outstanding Equity Awards at December 31, 2023

		Option Awards				Stock Awards	
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options**	**Number of securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares That Have Not Vested**	**Market Value of Shares That Have Not Vested($)**
Mr. Brantley	3/1/2023	-	-	-	-	3,868	60,000
Mr. Brantley	4/26/2023	-	-	-	-	750	9,360

Option Exercises and Stock Vested in 2023

Name	**Number of Securities Underlying Exercised Options (#)**	**Restricted Stock Vested (#)**	**Value Realized on Exercise/ Vesting ($)**	**Option Exercise/Vesting Date**
N/A	-	-	-	N/A

Neither the Company nor the Bank maintains a tax-qualified defined benefit or pension plan. The following table includes information about the benefits accrued under the Bank's nonqualified Supplemental Executive Retirement Plan, or SERP.

Pension Benefits

Name	**Number of Years Of Credited Service**	**Present Value of Accumulated Benefit[1] ($)**	**Payments in Fiscal 2023 ($)**
Phillip R. Branch	1	10,847	—

(1) This amount represents the present value as of December 31, 2023, of the accumulated benefit necessary to fund a retirement benefit under the SERP using a 5.12% interest rate and amortizing an appropriate service cost per year until retirement.

Potential Payments upon Termination or Change in Control

The Bank had entered into an agreement with Mr. Brantley, which provides for a payment upon the occurrence of a change in control, whether or not Mr. Brantley's employment continues after the change in control. In the event of a change in control, the Bank will pay to Mr. Brantley an amount equal to his salary and target bonus of 40% for 24 months following separation. The payment will be made in 24 equal monthly installments commencing on the first business day of the month next following the date of the change in control.

The term "change in control" is defined in Mr. Brantley's agreement to include the following events:

- any person or group becomes the direct or indirect beneficial owner of more than 50% of the Bank's outstanding voting stock;
- as a result of a merger or consolidation of the Bank, less than 50% of the surviving corporation's outstanding voting securities owned by us;
- a transfer of substantially all of the property of the Bank other than to an entity in which the Bank owns at least 50% of the voting stock; or
- the majority of the Bank's board of directors is replaced without recommendation or approval of a majority of the incumbent board.

As discussed in the CD&A section of this proxy statement, the Bank's SERP also provides for payments in the event employment is terminated in connection with a change in control. Assuming the change in control occurred on the last business day of the 2022 fiscal year, the aggregate amounts payable under Mr. Brantley's change in control agreement and each NEO's benefit under the SERP are as follows:

Name	Change in Control Agreement	SERP	Total
Stacy M. Brantley	$ 1,092,000	$ -	$ 1,092,000
Phillip R. Branch	-	486,189	486,189

CEO Pay ratio

As required by Section 953(b) of the Dodd-Frank Act and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our median employee and the annual total compensation of Stacy M. Brantley, our CEO.

For 2023, our last completed fiscal year, the median of the annual total compensation of all employees of the Company (other than our CEO) was $46,702, and the annual total compensation of our CEO as detailed in the Summary Compensation Table in this proxy, was $774,464. Based on this information, for 2023 the ratio of the annual total compensation of our CEO to the median of the annual total compensation of all employees was 16.6 to 1.

To determine the median of the annual total compensation of all employees of the Company (other than our CEO), we identified our total employee population as of December 31, 2023, which consisted of approximately 269 individuals. Of these employees, approximately 246 individuals are full-time equivalent employees, with the remainder employed on a part-time (less than 40 hours per week) basis.

To identify the "median employee" we conducted an analysis of this employee population, without the use of statistical sampling. We determined our median employee using "total compensation" for the full year 2023. "Total compensation" consisted of base pay, bonuses, commissions, fringe benefits, incentives, severance and vacation payout. Using this methodology, we determined that the "median employee" was a full-time branch teller responsible for establishing, retaining, and deepening customer relationships by performing efficient and accurate banking transactions; and opening and closing accounts in support of the Company's goals and objectives within the branch. With respect to the annual total compensation of the "median employee," we identified and calculated the elements of such employee's compensation for 2023 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K.

Pay Versus Performance Table

As required by Section 953(a) of the Dodd-Frank Act and Item 402(v) of Regulation S-K, the Pay Versus Performance ("PVP") rules because effective for the Company as of December 31, 2023 and the Company must comply with the PVP rules in proxy and information statements that include compensation disclosures.

The following table provides information concerning the required PVP disclosures for the 2023, 2022, and 2021 fiscal years.

Year	Summary Compensation Table Total for PEO ($)(1)	Compensation Actually Paid to PEO ($)(3)	Average Summary Compensation Table total for Non-PEO NEOs ($)(2)	Average Compensation Actually Paid to Non-PEO NEOs ($)	Value of Initial Fixed $100 Investment Based on Total Shareholder Return ($)	Net Income ($ - *in thousands*)
2023	859,374	743,861	221,405	221,405	44	1,854
2022	705,796	555,995	230,567	230,567	73	9,620
2021	644,888	502,160	212,370	212,370	94	7,494

(1) Greg McKee was considered the PEO through his retirement date, therefore his pay included in the Summary Compensation Table is not included here.

(2) Phillip Branch was considered the Non-PEO NEO for the fiscal years in the chart above.

(3) The following table sets forth the adjustments made during each year represented in the PVP Table to arrive at Compensation Actually Paid to PEO during 2023, 2022 and 2021 fiscal years.

Year	Salary ($)	Bonus ($)	Increase/(Deduction) for Change in Fair Value of Stock Awards Issued in Prior Year Still Outstanding at Year End ($)	Increase/(Deduction) for Change in Fair Value of Stock Awards Issued in Prior Year that Vested During the Current Year ($)	All Other Compensation ($)	Total ($)
2023	375,000	131,250	(33,571)	-	283,764	756,443
2022	354,333	138,278	(4,013)	(158)	53,266	541,707
2021	336,842	97,442	(158)	345	53,468	487,940

DIRECTOR COMPENSATION

During 2023, each of our directors, including Mr. McKee, who was an employee of the Company and an employee of the Bank, received an annual retainer of $18,300 and a year-end payment of $1,525. Directors who serve on the Bank's loan committee received an additional $100 per month. Mr. McKee's director fees are included in the "All Other Compensation" column of the Summary Compensation Table in the "Executive Compensation" section below.

We currently maintain two equity compensation plans for the benefit of our nonemployee directors, the 1999 Directors' Stock Compensation Plan and the 2013 Incentive Compensation Plan. During 2023, 750 shares of restricted stock were granted to each of the directors under the 2013 Incentive Compensation Plan. We have no plans to grant future awards under the 1999 Directors' Stock Compensation Plan.

Directors may elect to participate in the Directors' Deferred Fee Plan maintained by the Bank. A participating director elects to defer all or part of his fees to a bookkeeping account maintained by the Bank for a period of ten years. Interest is credited to the account at 100% of Moody's Average Corporate Bond Rate, subject to a contractual rate floor of 6.54%. Benefits are generally payable when a director attains age 70. The Bank has elected to purchase individual life insurance policies to fund its obligations under this plan.

The following table details the cash compensation, equity awards and change in the value of the deferred compensation arrangements for the year 2023.

Total 2023 Director Compensation

Name	Fees Earned or Paid in Cash[1]	Stock Awards[2]	Change in Deferred Compensation	Total
Gregory E. Cronin	$ 19,825	$ 9,360	$ -	$ 29,185
Jane D. Crosswhite	19,825	9,360	-	29,185
Craig Dungan, MD	19,825	9,360	17,864	47,049
Donald L. Kilgore	19,825	9,360	-	29,185
David A. King	21,025	9,360	18,647	49,032
Herbert A. King	19,825	9,360	-	29,185
Daniel Adam Mars	19,825	9,360	8,750	37,935
David P. Webb	21,025	9,360	13,492	43,877
Jason R. Voyles	20,125	9,360	-	29,485
Terrell E. Winstead	21,025	9,360	-	30,385
Greg L. McKee	15,250	9,360	18,204	42,814

(1) Includes amounts voluntarily deferred to our deferred compensation plans.

(2) Amounts represent the aggregate grant date fair value, as computed in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, of 750 shares of stock granted to each director on April 26, 2023.

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

The following table sets forth as of March 22, 2024, each person or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, or the "Exchange Act") known to us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, excluding any director or officer whose ownership is reflected in the next table. Beneficial ownership has been determined under Rule 13d-3 under the Exchange Act and is based upon the number of shares of our common stock issued and outstanding as of March 22, 2024, which was 5,624,052.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
The Molpus Company and Richard H. Molpus, Jr. 502 Valley View Drive Philadelphia, Mississippi 39350	401,511 [1]	7.149%

(1) Based upon a Schedule 13G/A filed jointly by the Molpus Company and Richard H. Molpus, Jr. on February 2, 2024 with the SEC. Of the shares of common stock, par value $0.20 per share, of Citizens Holding Company covered by that Schedule 13G/A, (i) 190,000 shares of our common stock are held by the Molpus Company; (ii) 99,233 shares of our common stock are owned by Mr. Molpus personally; and (iii) 112,278 shares of common stock that are owned by the Dick Molpus Foundation, a

non-profit organization of which Richard H. Molpus, Jr., Terrell Winstead and Jimmy Jon Josey are directors and as to which Mr. Molpus has sole investment and voting power.

The following table includes information about the common stock owned by our directors, nominees and named executive officers as of March 22, 2024, including their name and the number of shares beneficially owned. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act and is based upon the number of shares of our common stock issued and outstanding as of March 22, 2024, which was 5,624,052 shares, and the number of options exercisable within sixty days of March 22, 2024. Unless otherwise noted, these persons have sole voting power and investment power with respect to the listed shares (subject to any applicable community property laws). The address of each director and executive officer is Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

	Amount and Nature of Beneficial Ownership				
	Direct	**Options Exercisable Within 60 Days**	**Other**	**Total**	**Percent of Class**
Directors and Nominees:					
Craig Dungan, MD	97,121	-	273(1)	97,394	1.7%
Jason R. Voyles	2,250	-	435(2)	2,685	*
Donald L. Kilgore	12,503	-	-	12,503	*
David A. King	143,591	-	2,650(3)	146,241	2.6%
Herbert A. King	127,594	-	11,396(4)	138,990	2.5%
Daniel Adam Mars	30,264	-	-	30,264	*
David P. Webb	21,979	-	-	21,979	*
Terrell E. Winstead	22,899	-	-	22,899	*
Gregory E. Cronin	11,087	-	-	11,087	*
Jane D. Crosswhite	5,591	-	-	5,591	*
Greg L. McKee(5)	62,803	-	1,494(5)	64,297	1.1%
Named Executive Officers:					
Stacy M. Brantley	29,846	-	-	29,846	*
Phillip R. Branch	1,614	-	-	1,614	*
All directors, nominees and executive officers as a group (13 persons):	543,047	-	16,248	559,295	10.4%

* Less than 1% of the outstanding common stock.

(1) Indicates shares owned by Craig Dungan's spouse in a retirement account as to which Dr. Dungan has no voting and investment control.

(2) Indicates 435 shares owned by Jason R. Voyle's spouse, who exercises sole voting and investment power with respect to the shares and as to which Mr. Voyles disclaims beneficial ownership.

(3) Indicates 2,650 shares owned by David A. King's spouse, who exercises sole voting and investment power with respect to the shares and as to which Mr. King disclaims beneficial ownership.

(4) Includes 11,396 shares owned by K&D, L.P., a Mississippi limited partnership of which Mr. King is the controlling general partner and as to which shares Mr. King has sole voting and investment power.

(5) Indicates shares owned by Greg L. McKee's spouse in a retirement account of which Mr. McKee is the beneficiary.

The Company does not have any practices or policies regarding hedging or offsetting any decrease in market value of registrant equity securities.

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2023.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
Equity compensation plans approved by security holders[1]	-0-	$	0.00	270,000
Equity compensation plans not approved by security holders	-0-	$	0.00	-0-
Total	-0-	$	0.00	270,000

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

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

Our directors and executive officers and their affiliates and associates have engaged in the following transactions with the Company.

In 2023 and 2022, the Company paid legal and other fees paid to the law firm of Baker, Donelson, Bearman, Caldwell and Berkowitz, PC of $62,000 and $49,000, respectively. As stated previously, Director David P. Webb is a partner of the law firm of Baker, Donelson, Bearman, Caldwell and Berkowitz, PC.

In addition, the Company also purchased insurance from Philadelphia Security Insurance in the amount of $265,000 for 2023 and $273,000 in 2022. Philadelphia Security Insurance is principally owned by director Jason R. Voyles's father-in-law. The Company believes the premiums and terms of the insurance policies are no more favorable than could be obtained from a nonrelated party in an arm's length transaction. Mr. Voyles does not benefit financially from this transaction as he has no ownership interest in Philadelphia Security Insurance.

Certain of our directors, nominees and officers, businesses with which they are associated and members of their immediate families are customers of the Bank and have had transactions with the Bank in the ordinary course of the Bank's business. In the opinion of our Board of Directors, such transactions were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Bank, and did not involve more than the normal risk of collectability or present other unfavorable features.

Policy Concerning Related Party Transactions

On December 19, 2006, our Board of Directors adopted a written related person transaction policy, entitled "Policy and Procedures With Respect To Related Person Transactions" (referred to as the "Related Person Policy"). The Related Person Policy is administered by our audit committee. It covers any transaction, relationship or arrangement (or series of transactions, relationships or arrangements) (1) in which we or any of our subsidiaries participate or will participate, (2) where the amount involved exceeds $50,000 and (3) in which any of the following persons or entities (referred to as "related persons") has or will have a direct or indirect material interest: (x) any of our directors, executive officers, or any owner of 5% or more of our securities, (y) any immediate family member of any of the foregoing persons, or (z) any firm or other entity in which any of the foregoing persons is a partner, principal or holder of a 5% or greater beneficial ownership interest. Any covered transaction, relationship or arrangement is referred to as a "related person transaction."

Identification of Potential Related Party Transactions

Pursuant to the Related Person Policy, the audit committee requires our directors and executive officers to compile a list of all related persons of the director or executive officer. Such information is also requested from owners of greater than 5% of our common stock. Nominees for election as a director and persons appointed as directors or executive officers also must compile a list of related persons for the audit committee. The directors and executive officers must provide the audit committee with updates of their list of related persons when necessary. The audit committee, in its discretion, may also examine publicly-available information to ensure that each list of related persons is accurate and complete.

Review and Approval of Related Party Transactions

Once a master list of related persons is prepared, the audit committee distributes this list to the loan committee and to our Treasurer and Chief Financial Officer, who will distribute the list to such other individuals as he deems appropriate. The loan committee and other individuals then use this master list to determine if any existing or proposed transaction is a related person transaction. If a proposed related person transaction is identified, then the audit committee gathers information about the transaction, including, among other things, (1) the related person involved, (2) the material facts of the proposed transaction, including the amount involved, (3) the benefits of the transaction to us, (4) the availability of other sources of comparable products or services, and (5) an assessment of whether the terms of the proposed transaction are comparable to those available to unrelated third parties.

With this information, the audit committee determines whether the proposed related person transaction should be approved. If an audit committee member has an interest in the subject transaction, he or she is not permitted to participate in the review of the transaction. Under the Related Person Policy, the audit committee may only approve a related person transaction that is in, or at least not inconsistent with, the best interests of us and our shareholders.

If the loan committee or any other person becomes aware of an ongoing related party transaction that the audit committee has not approved, then information about the transaction similar to that described above will be compiled. The audit committee will then determine whether the transaction should be ratified or, if possible, amended or terminated. If the related person transaction is already complete, the committee must determine whether it is appropriate to attempt to rescind the transaction. Under the Related Person Policy, the audit committee must request our Treasurer and Chief Financial Officer to review our controls and procedures to ascertain why the related person transaction was not submitted to the audit committee for its prior approval. Finally, under the Related Person Policy, the audit committee is charged with reviewing annually any previously approved or ratified related party transaction that has a remaining term of more than six months or has remaining amounts payable greater than $25,000. Based on this review, the audit committee must determine whether it is in the best interests of us and our shareholders to continue, modify or terminate any ongoing related party transaction.

DIRECTOR INDEPENDENCE

Our Board of Directors has determined that each of Craig Dungan, Jane D. Crosswhite, Donald L. Kilgore, Herbert A. King, David A. King, Daniel Adam Mars, David P. Webb, Terrell E. Winstead, and Jason R. Voyles is “independent” as defined in rule 2.5 of the OTCQX Rules for U.S. Companies.

Our Board of Directors considered certain relationships between our directors and nominees for director and us when determining each director’s or nominee’s status as an “independent director” under rule 2.5 of the OTCQX Rules for U.S. Companies. In particular, our Board of Directors noted that we engaged Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, a law firm of which David P. Webb was a shareholder in 2023, to provide advice in various legal areas, including tax audits, employee benefits, civil litigation defense and general corporate law. Our Board of Directors determined that this relationship did not affect the status of Mr. Webb as an “independent director.” Additionally, Jason R. Voyles’s father-in-law, William G. Yates, Jr. is the principal owner of Philadelphia Security Insurance in which the Company purchased insurance policies from in 2023. The Company determined that this relationship did not affect the status of Mr. Voyles as an “independent director” as the Company has been using Philadelphia Security Insurance as its insurance provider for several years before Mr. Voyles was elected as a director and, in the opinion of the Company’s board of directors, this relationship would not interfere with Mr. Voyles’s exercise of independent judgment in carrying out his responsibilities of a director.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

HORNE LLP, an independent registered public accounting firm, has served as our auditor since December 31, 1998. The audit committee has appointed HORNE LLP to serve as auditor for the fiscal year ending December 31, 2024.

Fees related to services performed for us by HORNE LLP in fiscal years 2023 and 2022 are as follows:

	2023	2022
Audit Fees (1)	$ 347,254	$ 354,717
Audit-Related Fees (2)	-	-
Tax Fees (3)	37,500	36,300
All Other Fees	-	-
Total	$ 384,754	$ 374,759

(1) Audit fees include fees and expenses associated with the audit of our annual financial statements, the reviews of the financial statements in our quarterly reports on Form 10-Q, and regulatory and statutory filings.

(2) Audit-related fees primarily include professional services rendered for the audit of our employee benefit plans and technical accounting, consulting and research.

(3) Tax fees and expenses include tax compliance services, tax advice, and tax planning assistance, all of which were pre-approved by the audit committee. All tax fees were permissible tax fees under SEC rules.

In accordance with the procedures set forth in its charter, the audit committee pre-approves all auditing services and permitted non-audit services (including the fees and terms of those services) to be performed for us by our independent auditor prior to engagement for the services, subject to the *de minimis* exceptions for non-audit services permitted by SEC rules and regulations. For fiscal years 2023 and 2022, none of the fees listed under Audit-Related Fees, Tax Fees or All Other Fees were covered by the *de minimis* exception. The chairman of the audit committee has been delegated the authority by the committee to pre-approve the engagement of the independent auditors when the entire committee is unable to do so. The chairman must report all such pre-approvals to the entire audit committee at the next committee meeting.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements

1. Consolidated Financial Statements and Supplementary Information for years ended December 31, 2021, 2022 and 2023, which include the following:

   (i) Report of Independent Registered Public Accounting Firm (Financial Statements and Internal Control)

   (ii) Management's Assessment of Internal Control over Financial Reporting

   (iii) Consolidated Statements of Condition

   (iv) Consolidated Statements of Income

   (v) Consolidated Statements of Comprehensive Income

   (vi) Consolidated Statements of Changes in Stockholders' Equity

   (vii) Consolidated Statements of Cash Flows

   (viii) Notes to Consolidated Financial Statements

2. Financial Statement Schedules

   None.

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

Exhibit Number	Description of Document	Incorporated by Reference			SEC File No.
		Form	Filing Date	Exhibit Number	
2.1	Agreement and Plan of Merger, dated as of May 21, 2019, by and among Citizens Holding Company, The Citizens Bank of Philadelphia and Charter Bank	8-K	May 21, 2019	2.1	000-25221
3(i)	Restated Articles of Incorporation of Citizens Holding Company	10-Q	May 10, 2017	3(A)	000-25221
3(ii)	Second Amended and Restated Bylaws of Citizens Holding Company, as amended	10-Q	May 10, 2017	3(B)	000-25221
4	Description of Common Stock				000-25221
10(1)	Citizens Holding Company Revolving Credit Loan Agreement	8-K	June 14, 2021	10(1)	000-25221
10(a)	Directors' Deferred Compensation Plan - Form of Agreement †	10/A	June 21, 1999	10	000-25221
10(b)	Citizens Holding Company 1999 Directors' Stock Compensation Plan †	10/A	June 21, 1999	10(A)	000-25221
10(c)	Citizens Holding Company 1999 Employees' Long-Term Incentive Plan †	10/A	June 21, 1999	10(B)	000-25221
10(d)	Change in Control Agreement dated December 10, 2002 between Citizens Holding Company and Greg L. McKee †	10-K	March 31, 2003	10(D)	000-25221
10(e)	Supplemental Executive Retirement Plan †	10-K	March 16, 2005	10(F)	000-25221
10(f)	Citizens Holding Company 2013 Incentive Compensation Plan †	DEF-14A	March 21, 2013	A	000-25221
10(g)	Form of Incentive Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.1	000-25221
10(h)	Form of Non-Qualified Stock Option Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.2	000-25221
10(i)	Form of Restricted Share Award Agreement under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.3	000-25221
10(j)	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Citizens Holding Company 2013 Incentive Compensation Plan †	8-K	April 25, 2013	10.4	000-25221
10(k)	Form of Voting Agreement, between Citizens Holding Company and certain shareholders of Charter Bank (included as an exhibit to the Agreement and Plan of Merger attached as Exhibit 2.1)	8-K	May 21, 2019	2.1	000-25221
10(l)	Citizens Holding Company Revolving Credit Loan Agreement	8-K	June 14, 2021	10(1)	000-25221
10(m)	First Amendment to Loan Agreement and Revolving Credit Note, as of June 26, 2023, between Citizens Holding Company and First Horizon Bank	10-Q	August 14, 2023	10(1)	000-25221
10(n)	Employment Agreement, dated January 11, 2023 by and between the Citizens Bank of Philadelphia and Stacy M. Brantley†	10-Q	May 15, 2023	10(1)	000-25221
13	2023 Annual Report to Shareholders +				000-25221
14	Code of Ethics ±	10-K	March 26, 2004		000-25221
21	Subsidiaries of Citizens Holding Company +				000-25221
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer +				000-25221
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer +				000-25221
32.1	Section 1350 Certification of Chief Executive Officer ++				000-25221

Exhibit Number	Description of Document	Incorporated by Reference			SEC File No.
		Form	Filing Date	Exhibit Number	
32.2	Section 1350 Certification of Chief Financial Officer ++				000-25221
101	Inline XBRL Exhibits +				
104	Cover Page Interactive Data File (formatted as Inline EXBRL and contained in Exhibit 101)				000-25221

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K

+ Filed herewith

++ Furnished herewith

± As updated on Citizens Holding Company's website, https://www.thecitizensbankphila.com/investor-relations/

ITEM 16. FORM 10-K SUMMARY.

The Company has elected not to include summary information.

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SIGNATURES

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

CITIZENS HOLDING COMPANY

Date: March 29, 2024

By: /s/ Stacy M. Brantley
Stacy M. Brantley
President and Chief Executive Officer

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

SIGNATURES	CAPACITIES	DATE
/s/ Stacy M. Brantley Stacy M. Brantley	President and Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2024
/s/ Phillip R. Branch Phillip R. Branch	Treasurer and Chief Financial Officer (Principal Financial & Accounting Officer)	March 29, 2024
/s/ Greg McKee Greg McKee	Director	March 29, 2024
/s/ Craig Dungan Craig Dungan, MD	Director	March 29, 2024
/s/ Jason R. Voyles Jason R. Voyles	Director	March 29, 2024
/s/ Donald L. Kilgore Donald L. Kilgore	Director	March 29, 2024
/s/ David A. King David A. King	Director	March 29, 2024
/s/ Herbert A. King Herbert A. King	Chairman of the Board	March 29, 2024
/s/ Adam Mars Adam Mars	Director	March 29, 2024
/s/ David P. Webb David P. Webb	Director	March 29, 2024
/s/ Jane D. Crosswhite Jane D. Crosswhite	Director	March 29, 2024
/s/ Terrell E. Winstead Terrell E. Winstead	Director	March 29, 2024
/s/ Gregory E. Cronin Gregory E. Cronin	Director	March 29, 2024

Exhibit 4 – Description of Common Stock

As of December 31, 2023, the only class of securities of the Company registered under Section 12 of the Securities Exchange Act of 1934 is our common stock, $.20 par value ("common stock"). On December 29, 2023, the Company filed a Form 15 that terminated its registration under Section 12(g) of the Exchange Act, which will take effect on March 28, 2024.

The following summary of our common stock is based on and qualified by our Restated Articles of Incorporation (the "articles of incorporation"), our Bylaws, as amended (the "bylaws") and applicable provisions of Mississippi law, including the Mississippi Business Corporation Act. This summary is not complete. For a complete description of the terms and provisions of our common stock refer to the certificate of incorporation and bylaws both of which are filed as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2023, which is filed with the Securities and Exchange Commission.

COMMON STOCK

We have authorized 22,500,000 shares of common stock, $.20 par value. The common stock is quoted on the OTCQX Market. Its symbol is "CIZN."

Dividend Rights

Holders of common stock are entitled to receive such dividends, if any, as may be declared by our Board of Directors, in its discretion, out of funds legally available therefore.

Voting Rights

Holders of common stock are entitled to one vote per share on all matters to be voted on by our shareholders, including the election of directors. Under the Mississippi Business Corporation Act, an affirmative vote of the majority of the shareholders present at a meeting is sufficient in order to take most shareholder actions. Certain extraordinary actions, such as mergers and share exchanges, require the affirmative vote of a majority of the shares entitled to vote.

Liquidation Rights

In the event of the liquidation of the Company, the holders of common stock are entitled to receive pro rata any assets distributed to shareholders with respect to their shares, after payment of all debts and payments to holders of our preferred stock, if any.

Preemptive Rights

Holders of common stock have no right to subscribe to additional shares of capital stock that may be issued by us.

Liability for Calls and Assessments

The outstanding shares of common stock are fully paid and non-assessable.

Other Information

Holders of common stock have no conversion, redemption or call rights related to their shares.

Anti-Takeover Provisions Under Our Articles of Incorporation and Bylaws

Our articles of incorporation and bylaws contain provisions that may delay, deter or inhibit a future acquisition of us not approved by our Board of Directors. Such a result could occur even if our shareholders are offered an attractive value for their shares or even if a majority of our shareholders believe the takeover is in their best interest.

For example, our articles of incorporation authorize our Board of Directors to issue authorized and unissued shares of common stock without shareholder approval or to issue a series of preferred stock without any further approval from our shareholders, with the designations, preferences and relative rights, qualifications, limitations or restrictions, as the Board of Directors determines in its discretion.

Our bylaws include restrictions on the ability of a shareholder to call a special shareholder meeting and also establish advance notice procedures for the nomination of candidates for election to the Board of Directors by persons other than the Board of Directors and require that such a shareholder provide detailed information about the nominee and satisfy certain other conditions.

These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions are intended to encourage any person interested in acquiring us to negotiate with and obtain the approval of our Board of Directors in connection with any such transaction.

Exhibit 13 – 2023 Annual Report to Shareholders

CITIZENS HOLDING COMPANY

Philadelphia, Mississippi

Consolidated Financial Statements

As of December 31, 2023 and 2022 and for the
Years Ended December 31, 2023, 2022 and 2021

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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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, 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 in accordance with PCAOB standards. As part of our audit, 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 in accordance with PCAOB standards. 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.

Adoption of Accounting Pronouncements

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for the allowance for credit losses ("ACL") in 2023 due to the adoption of ASC 326.

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 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 this critical audit matter 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 Credit Losses - Loans

<u>Description of the Matter</u>

As described in Notes 1 and 5 to the financial statements, the Company's ACL is a valuation allowance that reflects the Company's best estimate of expected credit losses inherent within the Company's loans held for investment portfolio and is maintained at a level believed adequate by management to absorb credit losses inherent in the entire loan portfolio in accordance with Accounting Standards Codification ASC 326: Financial Instruments – Credit Losses. The ACL is measured over the contractual life of loans held for investment and is estimated using relevant available information relating to past events, current conditions, and reasonable and supportable forecasts, as well as qualitative adjustments. The ACL was $6,551,000 at December 31, 2023.

The Company's measurement of expected credit losses of loans on a pool basis when the loans share similar risk characteristics is based off historical data that is adjusted, as necessary, for both internal and external qualitative factors where there are differences in the historical loss data used by the Company and current or projected future conditions. Consideration of the relevant qualitative factors are used to bring the ACL to the level management believes is appropriate based on factors that are otherwise unaccounted for in the quantitative process. The ACL also includes reserves for loans evaluated on an individual basis. Management applies judgment in the determination of the qualitative factors and reserves assigned on an individual basis to estimate the ACL.

The ACL was identified by us as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management including the judgment required in evaluating management's determination of the qualitative factors.

<u>How We Addressed the Matter in Our Audit</u>

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

- Obtained an understanding of the Company's process for establishing the ACL, including determination of the qualitative factors and reserve assumptions for loans evaluated on an individual basis, and evaluated the process utilized by management to challenge the model results and determine the best estimate of the ACL as of the statement of financial condition date.

- Assessed reasonableness of model methodology and key modeling assumptions, as well as the appropriateness of management's qualitative framework, and reserve assumptions for loans evaluated on an individual basis.

- Performed specific substantive tests of the model utilized, qualitative factors and the reserve assumptions for loans evaluated on an individual basis. We evaluated if qualitative factors were applied based on a comprehensive framework and compared the adjustments utilized by management to both internal portfolio metrics and external macroeconomic data (as applicable) to support adjustments and evaluate trends in such adjustments. Within our reserve testing for loans evaluated on an individual basis, we evaluated management's assumptions, including collateral valuations. In addition, we evaluated the Company's estimate of the overall ACL giving consideration to the Company's borrowers, loan portfolio, and macroeconomic trends, independently obtained and compared such information to comparable financial institutions and considered whether new or contrary information existed.

/s/ HORNE LLP

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

Memphis, Tennessee
March 29, 2024

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, 2023, 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, 2023, the Company's system of internal control over financial reporting was effective.

Stacy Brantley
Chief Executive Officer

Phillip R. Branch
Treasurer and Chief Financial Officer

March 16, 2023

CITIZENS HOLDING COMPANY
Consolidated Statements of Financial Condition
December 31, 2023 and 2022
(in thousands, except share data)

	2023	2022
ASSETS		
Cash and due from banks	$ 14,553	$ 26,948
Interest bearing deposits with other banks	79,923	1,646
Cash and cash equivalents	94,476	28,594
Securities available-for-sale, at fair value	177,795	201,322
Investment securities held-to-maturity, at amortized cost	387,799	406,590
Loans held for investment ("LHFI"), net	640,945	585,316
Less allowance for credit losses, LHFI	6,551	5,264
Net LHFI	634,394	580,052
Bank premises, furniture, fixtures and equipment, net	27,073	27,705
Other real estate owned, net	1,234	1,179
Accrued interest receivable	5,231	4,864
Cash surrender value of life insurance	26,284	25,724
Deferred tax assets, net	28,008	29,574
Identifiable intangible assets, net	13,331	13,442
Other assets	8,972	4,682
Total assets	$ 1,404,597	$ 1,323,728
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing deposits	$ 264,528	$ 299,112
Interest bearing deposits	905,549	827,290
Total deposits	1,170,077	1,126,402
Short-term borrowings	158,086	127,574
Borrowings on secured line of credit	18,000	18,000
Accrued interest payable	1,243	732
Deferred compensation payable	9,929	9,868
Other liabilities	4,489	2,127
Total liabilities	1,361,824	1,284,703
Shareholders' equity		
Common stock, $.20 par value, authorized 22,500,000 shares; 5,616,438 shares issued and outstanding at December 31, 2023 and 5,603,570 shares issued and outstanding at December 31, 2022	1,123	1,122
Additional paid-in capital	18,585	18,448
Accumulated other comprehensive loss, net of tax benefit of $25,362 in 2023 and $29,355 in 2022	(76,289)	(83,070)
Retained earnings	99,354	102,525
Total shareholders' equity	42,773	39,025
Total liabilities and shareholders' equity	$ 1,404,597	$ 1,323,728

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Income
Years Ended December 31, 2023, 2022, and 2021
(in thousands, except share and per share data)

	2023	2022	2021
Interest income			
Interest and fees on loans	$ 32,777	$ 27,198	$ 31,207
Interest on securities			
Taxable	8,957	8,075	4,440
Non-taxable	4,184	4,040	2,800
Other interest	3,366	388	62
Total interest income	49,284	39,701	38,509
Interest expense			
Deposits	12,254	2,538	4,260
Other borrowed funds	7,152	2,254	755
Total interest expense	19,406	4,792	5,015
Net interest income	29,878	34,909	33,494
Provision for credit losses	669	124	1,409
Net interest income after provision for credit losses	29,209	34,785	32,085
Non-interest income			
Service charges on deposit accounts	3,788	3,896	3,499
Other service charges and fees	4,449	4,268	4,281
Net (losses) gains on sales of securities	(1,986)	-	1,378
Other income	2,497	2,721	3,030
Total non-interest income	8,748	10,885	12,188
Non-interest expense			
Salaries and employee benefits	18,583	17,649	18,460
Occupancy expense	3,143	3,195	3,193
Equipment expense	4,692	4,216	3,942
Write down on other real estate	-	42	914
Other expense	9,759	9,067	8,839
Total non-interest expense	36,177	34,169	35,348
Income before income taxes	1,780	11,501	8,925
Income tax (benefit) expense	(74)	1,881	1,431
Net income	$ 1,854	$ 9,620	$ 7,494
Net income per share – basic	$ 0.33	$ 1.72	$ 1.34
Net income per share – diluted	$ 0.33	$ 1.72	$ 1.34
Weighted average shares outstanding			
Basic	5,600,964	5,592,668	5,584,396
Diluted	5,600,964	5,592,668	5,584,483

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY

Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2023, 2022, and 2021
(in thousands)

	2023	2022	2021
Net income	$ 1,854	$ 9,620	$ 7,494
Other comprehensive income (loss)			
Securities available-for-sale			
Unrealized holding gains (losses) during the period	7,340	(96,677)	(22,608)
Income tax effect	(1,831)	24,121	5,641
Net unrealized gains (losses)	5,509	(72,556)	(16,967)
Amortization of net unrealized losses on securities transferred from AFS to HTM	4,546	1,707	-
Income tax effect	(1,134)	(426)	-
Net unrealized losses amortized on securities transferred from AFS to HTM	3,412	1,281	-
Derivative Instruments			
Unrealized holding losses during the period	(866)	-	-
Income tax effect	215	-	-
Net unrealized losses	(651)	-	-
Reclassification adjustment for (losses) gains included in net income	(1,984)	-	1,378
Income tax effect	495	-	(344)
Net (losses) gains included in net income	(1,489)	-	1,034
Total other comprehensive income (loss)	6,781	(71,275)	(15,933)
Comprehensive income (loss)	$ 8,635	$ (61,655)	$ (8,439)

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2023, 2022, and 2021
(in thousands, except share data)

	Number of Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
Balance, January 1, 2021	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
Net income	-	-	-	-	9,620	9,620
Dividends paid ($0.96 per share)	-	-	-	-	(5,377)	(5,377)
Restricted stock granted	8,250	2	(2)	-	-	-
Stock compensation expense	-	-	157	-	-	157
Other comprehensive loss, net	-	-	-	(71,275)	-	(71,275)
Balance, December 31, 2022	5,603,570	1,122	18,448	(83,070)	102,525	39,025
FASB ASU 2016-13 adoption adjustment	-	-	-	-	(983)	(983)
Net income	-	-	-	-	1,854	1,854
Dividends paid ($0.72 per share)	-	-	-	-	(4,042)	(4,042)
Restricted stock granted	12,868	1	(1)	-	-	-
Stock compensation expense	-	-	138	-	-	138
Other comprehensive income, net	-	-	-	6,781	-	6,781
Balance, December 31, 2023	5,616,438	$ 1,123	$ 18,585	$ (76,289)	$ 99,354	$ 42,773

The accompanying notes are an integral part of these statements.

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2023, 2022, and 2021

(in thousands)

	2023	2022	2021
Cash flows from operating activities			
Net income	$ 1,854	$ 9,620	$ 7,494
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,437	1,275	1,173
Amortization of premiums and accretion of discounts on investment securities, net	2,777	3,247	6,629
Stock compensation expense	138	157	161
Provision for credit losses	669	124	1,409
Loss (gain) on sale of securities	1,986	-	(1,378)
Gain from death benefit proceeds on BOLI	-	(192)	(357)
(Gain) loss on sale of fixed assets	(279)	(322)	13
Impairment loss on fixed assets	-	208	-
Net gain on sale of other real estate owned	-	(27)	(323)
Deferred income tax expense	(362)	401	566
Writedown on other real estate owned	-	42	914
(Increase) decrease in accrued interest receivable	(366)	(694)	1,812
Increase in cash surrender value life insurance	(560)	(665)	(670)
Increase (decrease) in accrued interest payable	511	403	(194)
Increase (decrease) in deferred compensation liability	61	325	(122)
Net change in other operating assets and liabilities	(2,343)	(142)	364
Net cash provided by operating activities	5,523	13,760	17,491
Cash flows from investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	$ 11,332	$ 39,399	$ 150,879
Proceeds from calls, paydowns and maturities of securities held-to-maturity	21,377	8,371	-
Proceeds from sales of securities available-for-sale	14,748	-	500,685
Purchases of investment securities available-for-sale	-	(122,120)	(631,131)
Proceeds from sale of FHLB stock	-	-	4,447
Death benefit proceeds from bank-owned life insurance	-	812	1,162
Purchases of bank premises, furniture, fixtures and equipment	(718)	(2,642)	(2,599)

CITIZENS HOLDING COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2023, 2022, and 2021

(in thousands)

	2023	2022	2021
Proceeds from sales of bank premises, furniture, fixtures and equipment	207	546	492
Proceeds from sale of other real estate owned	324	1,331	3,257
Purchases of FHLB stock	(317)	(880)	(4,103)
Net change in loans	(56,739)	(13,166)	75,527
Net cash (used in) provided by investing activities	(9,786)	(88,349)	98,616
Cash flows from financing activities			
Net change in deposits	$ 43,675	$ 14,510	$ 16,703
Net increase (decrease) in securities sold under agreement to repurchase	30,512	14,814	(83,512)
Proceeds from borrowings on secured line of credit	-	-	18,000
Dividends paid to shareholders	(4,042)	(5,377)	(5,370)
Net decrease in FHLB advances	-	-	(25,000)
Net cash provided by (used in) financing activities	70,145	23,947	(79,179)
Net increase (decrease) in cash and due from banks	65,882	(50,642)	36,928
Cash and cash equivalents, beginning of year	28,594	79,236	42,308
Cash and cash equivalents, end of year	$ 94,476	$ 28,594	$ 79,236
Supplemental disclosures of cash flow information			
Cash paid for			
Interest	$ 18,895	$ 4,388	$ 5,209
Income taxes	$ 1,950	$ 1,490	$ 515
Noncash disclosures			
Real estate acquired by foreclosure	$ 286	$ 49	$ 3,250

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

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 "Holding 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. During 2022, Title Services LLC ceased operations. 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 Accounting Standards Codification ("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 credit losses ("ACL") and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the ACL and valuation of foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and to value foreclosed real estate, future additions to the allowance or adjustments to the valuation may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's ACL 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 ACL and valuation of foreclosed real estate may change materially in the near term.

Note 1. Continued

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

For the purpose of reporting cash flows, cash and due from banks includes cash on hand and demand deposits. The Company is required to maintain average reserve balances with the Federal Reserve Bank based on a percentage of deposits. Effective March 26, 2021, the Federal Reserve reduced reserve requirement ratios to zero percent, eliminating the reserve requirements for all depository institutions.

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 ASC, securities are classified as “available-for-sale (“AFS”)”, “held-to-maturity (“HTM”)” or “trading”. Fair values for securities are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Gains or losses on the sale of securities are determined using the specific identification method. Currently, the Company has no trading securities.

Securities Available-for-Sale

Securities that are held for indefinite periods of time or used as part of the Company’s asset/liability management strategy and that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital and other similar factors are classified as 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.

The Company also evaluates available-for-sale investment securities in an unrealized loss position on a quarterly basis. If the Company intends to sell the security or it is more likely than not that it will be required to sell before recovery, the entire unrealized loss is recorded as a loss within noninterest income in the Consolidated Statements of Income with a corresponding adjustment to the amortized cost basis of the security. If the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security before recovery of its amortized cost basis, the Company evaluates if any of the unrealized loss is related to a potential credit loss. The amount, if any, related to credit loss is recognized in earnings as a provision for credit loss (“PCL”) and a corresponding ACL is established; each is calculated as the difference between the estimate of discounted future cash flows and the amortized cost basis of the security. A number of qualitative and quantitative factors, including the financial condition of the underlying issuer, current and projected deferrals or defaults and credit ratings by nationally recognized statistical rating agencies are considered by management in the estimate of the discounted future cash flows. The remaining difference between the fair value and the amortized cost basis of the security is considered the amount related to other market factors and is recognized in other comprehensive income, net of applicable taxes.

Note 1. Continued

Securities Held-to-Maturity

HTM securities are carried at amortized cost and represent those securities that the Company both intends and has the ability to hold to maturity.

The Company evaluates its ACL on the held-to-maturity investment portfolio on a quarterly basis in accordance with Financial Accounting Standards Board ("FASB") ASC 326, "*Financial Instruments* - *Credit Losses* ("ASC 326"; ASC 326 is also referred to as "CECL"). Expected credit losses on debt securities classified as held-to-maturity are measured on a collective basis by major security type. The estimates of expected credit losses are based on historical default rates, investment grades, current conditions, and reasonable and supportable forecasts about the future. The allowance is increased through PCL and decreased by charge-offs, net of recoveries of amounts previously charged-off.

LHFI and Allowance for Credit 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 ACL. The Company has no loans held-for-sale.

Unearned origination fees include deferred fees net of deferred direct incremental loan origination cost. Unearned origination fees 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 origination fees 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 nonperforming 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 these 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.

Note 1. Continued

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, the recognition of interest on mortgage and commercial and industrial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer and other retail loans are typically charged-off no later than the time the loan is 120 days past due. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Loans may be placed on nonaccrual regardless of whether or not such loans are considered past due. All interest accrued for the current year, but not collected, for loans that are placed on nonaccrual or charged-off is reversed against interest income, the amount of which was immaterial for the years ended December 31, 2023, 2022 and 2021. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Interest income recognized on nonaccrual loans was immaterial for the year ended December 31, 2023. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The ACL is an estimate of expected losses inherent within the Company's loans held for investment portfolio and is maintained at a level believed adequate by management to absorb credit losses inherent in the entire loan portfolio in accordance with ASC 326. Management evaluates the adequacy of the ACL on a quarterly basis. Expected credit loss inherent in non-cancellable off-balance-sheet credit exposures is accounted for as a separate liability in the Consolidated Statements of Financial Condition. The ACL for loans held for investment, as reported in the Company's Consolidated Statements of Financial Condition, is adjusted by a PCL, which is reported in earnings, and reduced by net charge-offs. Loan losses are charged against the ACL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The credit loss estimation process involves procedures to appropriately consider the unique characteristics of the Company's loan portfolio segments. Credit quality is assessed and monitored by evaluating various attributes, and the results of those evaluations are utilized in underwriting new loans and in the Company's process for the estimation of expected credit losses. Credit quality monitoring procedures and indicators can include an assessment of problem loans, the types of loans, historical loss experience, new lending products, emerging credit trends, changes in the size and character of loan categories and other factors, including the Company's risk rating system, regulatory guidance and economic conditions, such as the unemployment rate and GDP growth in the markets in which the Company operates, as well as trends in the market values of underlying collateral securing loans, all as determined based on input from management, loan review staff and other sources. This evaluation is complex and inherently subjective, as it requires estimates by management that are inherently uncertain and therefore susceptible to significant revision as more information becomes available. In future periods, evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the ACL and PCL in those future periods.

The methodology for estimating the amount of expected credit losses reported in the ACL has two basic components: first, a collective or pooled component for estimating expected credit losses for pools of loans that share similar risk characteristics; and second, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans.

Note 1. Continued

Loans Evaluated on a Collective (Pool) Basis

The ACL for loans that share similar risk characteristics with other loans is calculated on a collective or pool basis, where such loans are segregated into loan portfolio segments based upon similarity of credit risk. The Company's primary loan portfolio segments are as follows:

Real Estate – Land Development and Construction - The Company's construction loan portfolio consists of loans for the construction of single family residential properties, multi-family properties and commercial projects. Maturities for construction loans generally range from 6 to 12 months for residential properties and from 24 to 36 months for non-residential and multi-family properties. The source of repayment of a construction loan comes from the sale or lease of newly-constructed property, although often construction loans are repaid with the proceeds of a commercial real estate loan that the Company makes to the owner or lessor of the newly-constructed property.

Real Estate - Farmland - are "owner-occupied" loans in which the owner develops a property with the intention of locating its farming operations there. Payments on these loans are dependent on the successful development and management of the business as well as the borrower's ability to generate sufficient operating revenue to repay the loan. In some instances, in addition to the mortgage on the underlying real estate of the business, farmland loans are secured by other non-real estate collateral, such as equipment or other assets used in the business. In addition to owner-occupied commercial real estate loans, the Company offers loans in which the owner develops a property where the source of repayment of the loan will come from the sale or lease of the developed property. These loans are referred to as "non-owner occupied" farmland loans.

Real Estate - 1-4 Family Mortgage - This segment of the Company's loan portfolio includes loans secured by first or second liens on residential real estate in which the property is the principal residence of the borrower, as well as loans secured by residential real estate in which the property is rented to tenants or is otherwise not the principal residence of the borrower. Loans for the preparation of residential real property prior to construction are also included in this segment. Finally, this segment includes home equity loans or lines of credit and term loans secured by first and second mortgages on the residences of borrowers who elect to use the accumulated equity in their homes for purchases, refinances, home improvements, education and other personal expenditures. The Company attempts to minimize the risk associated with residential real estate loans by scrutinizing the financial condition of the borrower; typically, the maximum loan-to-value ratio is also limited.

Real Estate - Commercial Real Estate - are "owner-occupied" loans in which the owner develops a property with the intention of locating its business there. Payments on these loans are dependent on the successful development and management of the business as well as the borrower's ability to generate sufficient operating revenue to repay the loan. In some instances, in addition to the mortgage on the underlying real estate of the business, commercial real estate loans are secured by other non-real estate collateral, such as equipment or other assets used in the business. In addition to owner-occupied commercial real estate loans, the Company offers loans in which the owner develops a property where the source of repayment of the loan will come from the sale or lease of the developed property, for example, retail shopping centers, hotels and storage facilities. These loans are referred to as "non-owner occupied" commercial real estate loans. The Company also offers commercial real estate loans to developers of commercial properties for purposes of site acquisition and preparation and other development prior to actual construction (referred to as "commercial land development loans"). Non-owner occupied commercial real estate loans and commercial land development loans are dependent on the successful completion of the project and may be affected by adverse conditions in the real estate market or the economy as a whole.

Note 1. Continued

Business Loans - Commercial and Industrial Loans - Commercial loans are customarily granted to established local business customers in the Company's market area on a collateralized basis to meet their credit needs. Maturities are typically short term in nature and are commensurate with the secondary source of repayment that serves as the Company's collateral. Although commercial loans may be collateralized by equipment or other business assets, the repayment of this type of loan depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the chief considerations when assessing the risk of a commercial loan are the local business borrower's ability to sell its products/services, thereby generating sufficient operating revenue to repay the Company under the agreed upon terms and conditions, and the general business conditions of the local economy or other market that the business serves.

Business Loans – Farm Production and Other Farm Loans - Farm Production and Other Farm loans are customarily granted to established local farming customers in the Company's market area on a collateralized basis to meet their credit needs. Maturities are typically short term in nature and are commensurate with the secondary source of repayment that serves as the Company's collateral. Although farm loans may be collateralized by equipment or other business assets, the repayment of this type of loan depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the chief considerations when assessing the risk of a commercial loan are the local business borrower's ability to sell its products/services, thereby generating sufficient operating revenue to repay the Company under the agreed upon terms and conditions, and the general business conditions of the local economy or other market that the business serves.

Consumer Loans and Credit Cards - Installment loans to individuals are granted to individuals for the purchase of personal goods. Loss or decline of income by the borrower due to unplanned occurrences represents the primary risk of default to the Company. In the event of default, a shortfall in the value of the collateral may pose a loss in this loan category. Before granting a consumer loan, the Company assesses the applicant's credit history and ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. The Company obtains a lien against the collateral securing the loan and holds title until the loan is repaid in full.

In determining the ACL on loans evaluated on a collective basis, the Company categorizes loan pools based on loan type and/or risk rating. The Company uses four CECL models: (1) a loss rate model, based on CRE price index, real GDP, and U.S. unemployment for Real Estate – Land Development and Construction, Farmland, 1-4 Family Mortgages, and Commercial Real Estate, (2) a loss rate model, based on U.S. unemployment and nominal GDP for Commercial and Industrial Loans and Farm Production and Other Farm Loans, (3) a loss rate model, based on Moody's Expected Consumer Credit Loss Model for Consumer Loans, and (4) a WARM model, based on company loss history for Credit Cards and Overdrafts.

Note 1. Continued

The historical loss rates calculated as described above are adjusted, as necessary, for both internal and external qualitative factors where there are differences in the historical loss data of the Company and current or projected future conditions. Internal factors include lending expertise, risk tolerance measured through lending policy requirements, and quality of the loan review system. External factors include current and reasonable and supportable forecasted economic conditions, impact of competition and changes in collateral values. These factors are used to adjust the historical loss rates (as described above) to ensure that they reflect management's expectation of future conditions based on a reasonable and supportable forecast period. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made, the Company uses a reversion period of four quarters and reverts to the historical mean on a straight-line basis over the remaining life of the loans.

Loans Evaluated on an Individual Basis

For loans that do not share similar risk characteristics with other loans, an individual analysis is performed to determine the expected credit loss. If the respective loan is collateral dependent (that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral), the expected credit loss is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral. The fair value of collateral is initially based on external appraisals. Generally, collateral values for loans for which measurement of expected losses is dependent on the fair value of such collateral are updated every twelve months, either from external third parties or in-house certified appraisers. Third-party appraisals are obtained from a pre-approved list of independent, local appraisal firms. The fair value of the collateral derived from external appraisal is then adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. Other acceptable methods for determining the expected credit losses for individually evaluated loans (typically used when the loan is not collateral dependent) is a discounted cash flow approach or, if applicable, an observable market price. Once the expected credit loss amount is determined, an allowance equal to such expected credit loss is included in the ACL.

The Company considers the loans disclosed as individually evaluated in Note 5, "Allowance for credit losses ("ACL") and LHFI" as collateral dependent with the type of collateral being real estate.

The Company maintains a separate ACL on unfunded loan commitments, which is included in the "Other liabilities" line item on the Consolidated Statements of Financial Condition. Changes in such allowance are recorded in the "Other noninterest expense" line item on the Consolidated Statements of Income. Management estimates the amount of expected losses on unfunded loan commitments by calculating a likelihood of funding over the contractual period for exposures that are not unconditionally cancellable by the Company and applying the loss factors used in the ACL on loans methodology described above to unfunded commitments for each loan type. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company.

Note 1. Continued

Prior to the adoption of ASC 326 on January 1, 2023, the allowance was calculated under the guidance on collective impairment as recognized under ASC 450, "*Contingencies*." Collective impairment was calculated based on loans grouped by grade. Another component of the allowance was losses on loans assessed as impaired under ASC 310, "*Receivables*" ("ASC 310"). The balance of these loans and their related allowance was included in management's estimation and analysis of the ACL.

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

Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)," became effective for the Company on January 1, 2020. 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 Statements of Financial Condition. 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.

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 occupancy expense. 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.

Note 1. Continued

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 statement of financial condition.

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 ACL. 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 OREO 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 statement of financial condition date. Changes in the value of the policies are classified in non-interest income.

Intangible Assets

Intangible assets include core deposits purchased and goodwill. Core deposit intangibles are amortized on a straight-line basis over their estimated economic lives ranging from 5 to 10 years. 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.

Note 1. Continued

Fair Value Measurements:

ASC 820, "*Fair Value Measurements and Disclosures*," provides guidance for using fair value to measure assets and liabilities and also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to a valuation based on quoted prices in active markets for identical assets and liabilities (Level 1), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable in the market (Level 2), and the lowest priority to a valuation based on assumptions that are not observable in the market (Level 3). See Note 19, "Fair Value Measurements," for further details regarding the Company's methods and assumptions used to estimate the fair values of the Company's financial assets and liabilities.

Derivative Instruments and Hedging Activities

The Company utilizes derivative financial instruments as part of its ongoing efforts to manage its interest rate risk exposure as well as to meet the needs of its customers. Derivative financial instruments are included in the Consolidated Statements of Financial Condition line item "Other assets" or "Other liabilities" at fair value in accordance with ASC *815.*

Fair value hedges are utilized to mitigate the exposure to future interest rate risk. For the Company's derivatives designated as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged liability attributable to the hedged risk are recognized in current earnings. The gain or loss on the derivative instrument is presented on the same line item as the earnings effect of the hedged item.

Comprehensive Income (Loss)

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

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 2023, 2022 and 2021 is illustrated in the following table.

Note 1. Continued

	2023	2022	2021
Basic weighted average shares outstanding	5,600,964	5,592,668	5,584,396
Dilutive effect of stock options	-	-	87
Dilutive weighted average shares outstanding	5,600,964	5,592,668	5,584,483
Net income	$ 1,854	$ 9,620	$ 7,494
Net income per share-basic	$ 0.33	$ 1.72	$ 1.34
Net income per share-diluted	$ 0.33	$ 1.72	$ 1.34

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense was $566, $610 and $573 for the years ended December 31, 2023, 2022 and 2021, 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 2022 has been reclassified to conform to the financial presentation for 2023. Such reclassifications had no effect on net income or shareholders' equity.

Stock-Based Compensation

At December 31, 2023, 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 employee benefits" on the Consolidated Statements of Income. The Company recognizes compensation expense for all share-based payments to employees in accordance with ASC 718.

Note 1. Continued

Impact of Recently-Issued Accounting Standards and Pronouncements:

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"). This update to ASC 326, *Financial Instruments - Credit Losses*, significantly changed the way entities recognize impairment on many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. FASB describes this impairment recognition model as the current expected credit loss model and believes the CECL model will result in more timely recognition of credit losses since the CECL model incorporates expected credit losses versus incurred credit losses. The scope of FASB's CECL model includes loans, held-to-maturity debt instruments, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value. Additionally, ASU 2016-13 amended the accounting for credit losses on available-for-sale securities and purchased financial assets with credit deterioration. In the remainder of these Notes to Consolidated Financial Statements, references to "CECL" or to "FASB ASU 2016-13" shall mean the accounting standards and principles set forth in ASC 326 after giving effect to ASU 2016-13 and the clarifications thereto discussed in the next paragraph.

The Company adopted ASU 2016-13 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. To implement CECL, entities are required to apply a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company recorded a one-time cumulative-effect adjustment as disclosed in the table below.

	December 31, 2022 (as reported)	Impact of FASB ASU 2016-13 Adoption	January 1, 2023 (adjusted)
Assets:			
ACL	$ (5,264)	$ (634)	$ (5,898)
Deferred tax assets, net	29,574	327	29,901
Liabilities:			
ACL on off-balance sheet exposures	-	677[2]	677
Shareholders' equity:			
Retained earnings	$ 102,525	$ (984)	$ 101,541

2 The allowance for credit losses on unfunded loan commitments is included in "Other liabilities" in the accompanying consolidated balance sheet. The related provision for credit losses on unfunded loan commitments is included in "Provision for credit losses" in the accompanying consolidated statements of income for the three and nine months ended December 31, 2023.

Additionally, the Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans and thus the measurement of the ACL in the Company's loan portfolio. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the Consolidated Statements of Financial Condition and totaled $2,397 and $1,981 at December 31, 2023 and December 31, 2022, respectively, and is excluded from estimated credit losses.

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, 2023 and 2022 were as follows:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Mortgage-backed securities	$ 94,255	$ -	$ 9,883	$ 84,372
State, County, Municipals	118,815	2	25,839	92,978
Other securities	500	-	55	445
Total	$ 213,570	$ 2	$ 35,777	$ 177,795

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Mortgage-backed securities	$ 107,055	$ -	$ 10,083	$ 96,972
State, County, Municipals	134,906	-	30,993	103,913
Other securities	500	-	63	437
Total	$ 242,461	$ -	$ 41,139	$ 201,322

The amortized cost and estimated fair value of securities HTM and the corresponding amounts of gross unrealized gains and losses at December 31, 2023 were as follows:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity				
Obligations of U.S. Government agencies	$ 4,065	$ -	$ 375	$ 3,690
Mortgage-backed securities	290,803	-	29,011	261,792
State, County, Municipals	92,931	33	3,028	89,936
Total	$ 387,799	$ 33	$ 32,414	$ 355,418

Note 2. Continued

The amortized cost and estimated fair value of securities HTM and the corresponding amounts of gross unrealized gains and losses at December 31, 2022 were as follows:

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held-to-maturity				
Obligations of U.S. Government agencies	$ 4,002	$ -	$ 367	$ 3,635
Mortgage-backed securities	309,748	-	24,654	285,094
State, County, Municipals	92,840	-	6,277	86,563
Total	$ 406,590	$ -	$ 31,298	$ 375,292

The following tables show the gross unrealized losses and fair value of the Company's investments classified as AFS and HTM investments with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022.

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

December 31, 2023

Available-for-sale	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	$ 3,330	$ 28	$ 78,553	$ 9,855	$ 81,883	$ 9,883
State, County, Municipal	1,282	5	91,197	25,834	92,479	25,839
Other securities	-	-	445	55	445	55
Total	$ 4,612	$ 33	$ 170,195	$ 35,744	$ 174,807	$ 35,777

Held-to-maturity	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	$ -	$ -	$ 3,690	$ 375	$ 3,690	$ 375
Mortgage backed securities	-	-	261,791	29,011	261,791	29,011
State, County, Municipal	-	-	86,390	3,028	86,390	3,028
Total	$ -	$ -	$ 351,871	$ 32,414	$ 351,871	$ 32,414

Note 2. Continued

December 31, 2022						
Available-for-sale	**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	$ 70,652	$ 3,838	$ 26,320	$ 6,245	$ 96,972	$ 10,083
State, County, Municipal	45,200	9,027	58,713	21,966	103,913	30,993
Other securities	-	-	437	63	437	63
Total	$ 115,852	$ 12,865	$ 85,470	$ 28,274	$ 201,322	$ 41,139

Held-to-maturity	**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	$ -	$ -	$ 3,635	$ 367	$ 3,635	$ 367
Mortgage backed securities	17,882	1,333	267,212	23,321	285,094	24,654
State, County, Municipal	15,059	781	71,504	5,496	86,563	6,277
Total	$ 32,941	$ 2,114	$ 342,351	$ 29,184	$ 375,292	$ 31,298

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.

The amortized cost and estimated fair value of securities at December 31, 2023, by contractual maturity and investment type, 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.

	Available-for-sale		**Held-to-maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
December 31, 2023				
Due in one year or less	$ 500	$ 445	$ -	$ -
Due after one year through five years	2,880	2,797	-	-
Due after five years through ten years	5,547	5,284	-	-
Due after ten years	110,388	84,897	96,996	93,626
Residential mortgage backed securities	81,820	72,305	232,902	211,313
Commercial mortgage backed securities	12,435	12,067	57,901	50,479
Total	$ 213,570	$ 177,795	$ 387,799	$ 355,418

Note 2. Continued

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2022				
Due in one year or less	$ 721	$ 657	$ -	$ -
Due after one year through five years	3,152	3,042	-	-
Due after five years through ten years	5,275	4,853	-	-
Due after ten years	126,258	95,798	96,842	90,198
Residential mortgage backed securities	94,226	84,481	250,615	230,771
Commercial mortgage backed securities	12,829	12,491	59,133	54,323
Total	$ 242,461	$ 201,322	$ 406,590	$ 375,292

Investment securities with carrying amounts of $532,768 and $462,954 at December 31, 2023 and December 31, 2022, respectively, were pledged as collateral for public deposits and securities sold under agreement to repurchase.

Gross realized gains and losses are included in net (losses) 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:

	2023	2022	2021
Gross realized gains	$ -	$ -	$ 4,257
Gross realized losses	(1,986)	-	(2,879)
Net realized (losses) gains	$ (1,986)	$ -	$ 1,378

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 $2,199 and $1,786 at December 31, 2023 and December 31, 2022, respectively, and is included in "Other Assets" in the Consolidated Statements of Financial Condition. The Company purchased stock in 2023 and 2022 at the par value of $100 per share.

Note 4. Loans

(In Thousands, Except Number of Loans)

The composition of LHFI, net at December 31, 2023 and 2022 is as follows:

	2023	2022
Real Estate:		
Land Development and Construction	$ 66,942	$ 52,731
Farmland	10,825	11,437
1-4 Family Mortgages	95,161	92,148
Commercial Real Estate	358,226	316,541
Total Real Estate Loans	531,154	472,857
Business Loans:		
Commercial and Industrial Loans	93,060	96,500
Farm Production and Other Farm Loans	424	504
Total Business Loans	93,484	97,004
Consumer Loans:		
Credit Cards	3,377	2,738
Other Consumer Loans	14,013	12,992
Total Consumer Loans	17,390	15,730
Total Gross Loans	642,028	585,591
Unearned Origination Fees	(1,083)	(275)
Allowance for Loan Losses	(6,551)	(5,264)
Loans, net	$ 634,394	$ 580,052

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.

Note 4. Continued

Loans are made principally to customers in the Company's market. The Company's lending policy provides that loans collateralized by real estate are normally made with loan-to-value ("LTV") ratios of 80 percent or less. Commercial loans are typically collateralized by property, equipment, inventories or receivables with LTV ratios from 50 percent to 80 percent. 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 $152,262 and $104,261 of the loans outstanding at December 31, 2023 and 2022, 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 2023 is presented in the following table.

Balance outstanding at December 31, 2022	$	923
Principal additions		584
Principal reductions		(45)
Balance outstanding at December 31, 2023	$	1,462

In addition to the loans outstanding above, the Company has an outstanding letter of credit with one of the Company's directors with availability of $2,275 at December 31, 2022. The letter of credit was not drawn on during 2022 or 2023 and is no longer oultstanding at December 31, 2023. The letter of credit was made on substantially the same terms as comparable transactions with other unaffiliated persons.

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.

Note 4. Continued

Nonaccrual and Past Due LHFI

The amortized cost basis of period-end, nonaccrual and past due LHFI, segregated by class, were as follows:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
December 31, 2023			
Loans secured by real estate:			
Land Development and Construction	$ -	$ -	$ -
Farmland	-	95	-
1-4 Family Mortgages	-	1,670	-
Commercial Real Estate	399	504	-
Total Real Estate Loans	399	2,269	-
Business Loans:			
Commercial and Industrial Loans	124	267	4
Farm Production and Other Farm Loans	-	-	-
Total Business Loans	124	267	-
Consumer Loans:			
Other Consumer Loans	-	40	-
Credit Cards	-	-	12
Total Consumer Loans	-	40	12
Total	$ 523	$ 2,576	$ 16

Note 4. Continued

The following disclosures are presented under GAAP in effect prior to the adoption of CECL. The Company has included these disclosures to address the applicable prior period.

	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
December 31, 2022		
Loans secured by real estate:		
Land Development and Construction	$ -	$ 4
Farmland	117	-
1-4 Family Mortgages	1,720	-
Commercial Real Estate	846	95
Total Real Estate Loans	2,683	99
Business Loans:		
Commercial and Industrial Loans	281	-
Farm Production and Other Farm Loans	-	-
Total Business Loans	281	-
Consumer Loans:		
Other Consumer Loans	24	-
Credit Cards	-	12
Total Consumer Loans	24	12
Total	$ 2,988	$ 111

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 $431, $354 and $281 in 2023, 2022 and 2021, respectively.

Note 4. Continued

An aging analysis of past due loans, segregated by class of loans, as of December 31, 2023 is as follows:

December 31, 2023	30 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current Loans	Total
Loans secured by real estate:					
Land Development and Construction	$ 32	$ -	$ 32	$ 66,910	$ 66,942
Farmland	90	-	90	10,735	10,825
1-4 Family Mortgages	1,024	179	1,203	93,958	95,161
Commercial Real Estate	1,080	67	1,147	357,079	358,226
Total Real Estate Loans	2,226	246	2,472	528,682	531,154
Business Loans:					
Commercial and Industrial Loans	54	270	324	92,736	93,060
Farm Production and Other Farm Loans	-	-	-	424	424
Total Business Loans	54	270	324	93,160	93,484
Consumer Loans:					
Credit Cards	65	12	77	3,300	3,377
Other Consumer Loans	116	-	116	13,897	14,013
Total Consumer Loans	181	12	193	17,197	17,390
Total	$ 2,461	$ 528	$ 2,989	$ 639,039	$ 642,028

An aging analysis of past due loans, segregated by class of loans, as of December 31, 2022 is as follows:

December 31, 2022	30 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current Loans	Total
Loans secured by real estate:					
Land Development and Construction	$ -	$ 4	$ 4	$ 52,727	$ 52,731
Farmland	38	30	68	11,369	11,437
1-4 Family Mortgages	1,799	439	2,238	89,910	92,148
Commercial Real Estate	933	486	1,419	315,122	316,541
Total Real Estate Loans	2,770	959	3,729	469,128	472,857
Business Loans:					
Commercial and Industrial Loans	109	277	386	96,114	96,500
Farm Production and Other Farm Loans	4	-	4	500	504
Total Business Loans	113	277	390	96,614	97,004
Consumer Loans:					
Credit Cards	56	12	89	2,649	2,738
Other Consumer Loans	66	23	68	12,924	12,992
Total Consumer Loans	122	35	157	15,573	15,730
Total	$ 3,005	$ 1,271	$ 4,276	$ 581,315	$ 585,591

Note 4. Continued

Prior to the adoption of FASB ASC Topic 326, the Company's individually evaluated impaired LHFI included all commercial substandard relationships of $100 or more, which were specifically reviewed for impairment and deemed impaired, and all LHFI classified as troubled-debt restructurings ("TDRs") in accordance with FASB ASC Subtopic 310-10-50-20 "Impaired Loans." Once a LHFI was deemed to be impaired, the full difference between book value and the most likely estimate of the collateral's net realizable value was charged off or a specific reserve was established.

$124 of interest income was recognized in the income statement on impaired LHFI for the periods ended December 31, 2023. The amount was immaterial for the period ended December 31, 2022.

The following disclosures are presented under GAAP in effect prior to the adoption of CECL that are no longer applicable or required. The Company has included these disclosures to address the applicable prior periods.

Loans formerly accounted for under FASB ASC 310-20, "Nonrefundable Fees and Other Cost" ("ASC 310-20"), and which are impaired loans recognized in conformity with ASC 310, "Receivables" ("ASC 310"), segregated by class, were as follows as of December 31, 2022:

2022	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	$ -	$ -	$ -	$ -	$ -	$ 86
Farmland	30	30	-	30	-	32
1-4 Family Mortgages	190	190	-	190	-	479
Commercial Real Estate	3,023	795	2,066	2,861	116	1,996
Total Real Estate Loans	3,243	1,015	2,066	3,081	116	2,593
Business:						
Commercial and Industrial	304	196	-	196	-	214
Total Business Loans	304	196	-	196	-	214
Total Loans	$ 3,547	$ 1,211	$ 2,066	$ 3,277	$ 116	$ 2,807

Note 4. Continued

Loan Modifications

The Company adopted ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures on January 1, 2023. The amendments in this ASU were applied prospectively, and therefore, loan modification and charge off information is provided only for those items occurring after the January 1, 2023 adoption date.

Based on the guidance in ASU 2022-02, a loan modification or refinancing results in a new loan if the terms of the new loan are at least as favorable to the lender as the terms with customers with similar collection risks that are not refinancing or restructuring their loans and the modification to the terms of the loans are more than minor. If a loan modification or refinancing does not result in a new loan, it is classified as a loan modification. There are additional disclosures for the modification of loans with borrowers experiencing financial difficulty that results in a direct change in the timing or amount of contractual cash flows. The disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions or a combination of any of these terms. If the Company modifies any loans to borrowers in financial distress that involves principal forgiveness, the amount of principal forgiven is charged off against the ACL.

The Company had no loan modifications to borrowers experiencing financial difficulties in 2023.

At December 31, 2023, LHFI classified as modified loans totaled $2,224. At December 31, 2023, modified loans were primarily comprised of interest rate concessions. The Company had $-0- in unused commitments on modified loans at December 31, 2023.

The allocated ACL attributable to modified loans was $142 at December 31, 2023. The Company had no commitments to lend additional funds on these loans as of December 31, 2023.

There were no loans modified within the last twelve months for which there was a payment default during the twelve months ended December 31, 2023.

At December 31, 2023 and December 31, 2022, the amortized cost of loans secured by Real Estate – 1-4 Family Mortgage in the process of foreclosure was $-0- and $-0-, respectively.

Note 4. Continued

Collateral-Dependent Loans

The following tables present the amortized cost basis of collateral-dependent loans by class of loans and collateral type as of December 31, 2023:

December 31, 2023	Stocks	Inventory	Real Estate	Receivables	Total
Loans secured by real estate:					
Land Development and Construction	$ -	$ -	$ -	$ -	$ -
1-4 Family Mortgages	-	-	81	-	81
Commercial Real Estate	-	-	2,399	-	2,399
Total Real Estate Loans	-	-	2,480	-	2,480
Business Loans:					
Commercial and Industrial Loans	1,280	92	-	32	1,404
Farm Production and Other Farm Loans	-	-	-	-	-
Total Business Loans	1,280	92	-	32	1,404
Total	$ 1,280	$ 92	$ 2,480	$ 32	$ 3,884

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the sale of the collateral. The following provides a qualitative description by class of loan of the collateral that secures the Company’s collateral-dependent LHFI:

- Loans secured by real estate – Loans within these loan classes are secured by liens on real estate properties. There have been no significant changes to the collateral that secures these financial assets during the period.
- Business loans – Loans within this loan class are primarily secured by inventory, accounts receivables, equipment and other non-real estate collateral. There have been no significant changes to the collateral that secures these financial assets during the period.

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 statement of 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.

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.

Note 4. Continued

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

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

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management's most updated judgment regarding grades at December 31, 2023.

Note 4. Continued

The following table details the amortized cost basis of LHFI, segregated by loan origination year, grade and class, as of December 31, 2023:

Term Loans Amortized Cost Basis by Origination Year

December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total Loans
Loans secured by real estate:								
Land Development and Construction								
Satisfactory - Categories 1-4	$ 23,439	$ 3,514	$ 1,173	$ 13,160	$ 860	$ 226	$ 23,282	$ 65,654
Special Mention - Category 5 & 6	-	348	679	-	-	-	-	1,027
Substandard - Category 7	-	261	-	-	-	-	-	261
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	-	-	-	-	-	-	-	-
Total Land Development and Construction	23,439	4,123	1,852	13,160	860	226	23,282	66,942
Farmland								
Satisfactory - Categories 1-4	1,929	1,520	1,143	1,395	3,003	492	995	10,477
Special Mention - Category 5 & 6	-	-	80	-	129	37	-	246
Substandard - Category 7	-	32	6	4	17	43	-	102
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	-	-	-	-	-	-	-	-
Total Farmland	1,929	1,552	1,229	1,399	3,149	572	995	10,825
1-4 Family Mortgages								
Satisfactory - Categories 1-4	14,355	18,980	11,305	10,988	9,353	5,163	19,976	90,120
Special Mention - Category 5 & 6	497	184	93	464	296	157	76	1,767
Substandard - Category 7	275	34	274	262	79	1,918	351	3,193
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	-	-	-	-	81	-	-	81
Total 1-4 Family Mortgages	15,127	19,198	11,672	11,714	9,809	7,238	20,403	95,161
Commercial Real Estate								
Satisfactory - Categories 1-4	82,361	51,185	58,021	52,120	24,368	29,836	17,920	315,811
Special Mention - Category 5 & 6	9,172	2,414	2,193	917	4,481	288	3,855	23,320
Substandard - Category 7	-	67	3,636	-	264	15,128	-	19,095
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	-	-	-	-	-	-	-	-
Total Commercial Real Estate	91,533	53,666	63,850	53,037	29,113	45,252	21,775	358,226
Total Real Estate Loans	132,028	78,539	78,603	79,310	42,931	53,288	66,455	531,154
Business Loans:								
Commercial and Industrial Loans								
Satisfactory - Categories 1-4	28,036	18,428	4,415	14,052	5,988	7,390	10,136	88,445
Special Mention - Category 5 & 6	23	116	-	246	-	441	2,141	2,967
Substandard - Category 7	-	16	83	-	4	720	825	1,648
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	-	-	-	-	-	-	-	-
Total Commercial & Industrial	28,059	18,560	4,498	14,298	5,992	8,551	13,102	93,060
Farm Production and Other Farm Loans								
Satisfactory - Categories 1-4	109	162	-	-	-	91	62	424
Special Mention - Category 5 & 6	-	-	-	-	-	-	-	-
Substandard - Category 7	-	-	-	-	-	-	-	-
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	-	-	-	-	-	-	-	-
Total Farm Production & Other Farm	109	162	-	-	-	91	62	424
Total Business Loans	28,168	18,722	4,498	14,298	5,992	8,642	13,164	93,484
Consumer Loans:								
Satisfactory - Categories 1-4	7,368	3,071	1,188	586	836	185	367	13,601
Special Mention - Category 5 & 6	2	-	-	-	3	-	-	5
Substandard - Category 7	337	37	31	-	-	-	-	405
Doubtful - Category 8	-	-	-	-	-	-	-	-
Loss 9	2	-	-	-	-	-	-	2
Total Consumer Loans	7,709	3,108	1,219	586	839	185	367	14,013
Credit Cards								
Performing	-	-	-	-	-	-	3,365	3,365
Nonperforming	-	-	-	-	-	-	12	12
Total Credit Card	-	-	-	-	-	-	3,377	3,377
Gross LHFI	$ 167,905	$ 100,369	$ 84,320	$ 94,194	$ 49,762	$ 62,115	$ 83,363	$ 642,028
Less Unearned Origination Fees								(1,083)
Less ACL								(6,551)
Net LHFI								$ 634,394

Note 4. Continued

There were no revolving loans converted to term loans during the year ended December 31, 2023.

The following disclosures are presented under GAAP in effect prior to the adoption of CECL. The Company has included these disclosures to address the applicable prior period.

A discussion of the Company's policies regarding internal risk-rating of loans is discussed above and is applicable to these tables. The following table presents the Company's loan portfolio by internal risk-rating grades as of December 31, 2022:

	Satisfactory 1,2,3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	$ 50,015	$ 2,427	$ 289	$ -	$ -	$ 52,731
Farmland	10,832	269	336	-	-	11,437
1-4 Family Mortgages	85,861	1,816	4,471	-	-	92,148
Commercial Real Estate	274,901	7,975	33,665	-	-	316,541
Total Real Estate Loans	421,609	12,487	38,761	-	-	472,857
Business Loans:						
Commercial and Industrial Loans	91,016	4,902	577	-	5	96,500
Farm Production and Other Farm Loans	491	-	13	-	-	504
Total Business Loans	91,507	4,902	590	-	5	97,004
Consumer Loans:						
Credit Cards	2,670	-	68	-	-	2,738
Other Consumer Loans	12,934	7	51	-	-	12,992
Total Consumer Loans	15,604	7	119	-	-	15,730
Total Loans	$ 528,720	$ 17,396	$ 39,470	$ -	$ 5	$ 585,591

Note 5. ACL on LHFI

(in thousands)

The Company's ACL methodology for LHFI is based upon guidance within ASC Subtopic 326-20 as well as applicable regulatory guidance. The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Credit quality within the LHFI portfolio is regularly monitored by Management and is reflected within the ACL for loans. The ACL is an estimate of expected losses inherent within the Company's existing LHFI portfolio. The ACL for LHFI is adjusted through the PCL, LHFI and reduced by the charge off of loan amounts, net of recoveries.

The methodology for estimating the amount of expected credit losses reported in the ACL has two basic components: a collective, or pooled, component for estimated expected credit losses for pools of loans that share similar risk characteristics, and an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans. In estimating the ACL for the collective component, loans are segregated into loan pools based on loan product types and similar risk characteristics.

Note 5. Continued

The loans secured by real estate segment includes loans for both commercial and residential properties. The underwriting process for these loans includes analysis of the financial position and strength of both the borrower and guarantor, experience with similar projects in the past, market demand and prospects for successful completion of the proposed project within the established budget and schedule, values of underlying collateral, availability of permanent financing, maximum loan-to-value ratios, minimum equity requirements, acceptable amortization periods and minimum debt service coverage requirements, based on property type. The borrower's financial strength and capacity to repay their obligations remain the primary focus of underwriting. Financial strength is evaluated based upon analytical tools that consider historical and projected cash flows and performance in addition to a financial analysis of any proposed project. Additional support offered by guarantors is also considered. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

The business loan segment includes loans within the Company's geographic markets made to many types of businesses for various purposes, such as short term working capital loans that are usually secured by accounts receivable and inventory and term financing for equipment and fixed asset purchases that are secured by those assets. The Company's credit underwriting process for commercial and industrial loans includes analysis of historical and projected cash flows and performance, evaluation of financial strength of both borrowers and guarantors as reflected in current and detailed financial information and evaluation of underlying collateral to support the credit.

The consumer LHFI portfolio segment is comprised of loans that are centrally underwritten based on a credit scoring system as well as an evaluation of the borrower's repayment capacity, credit, and collateral. Property appraisals are obtained to assist in evaluating collateral. Loan-to value and debt-to-income ratios, loan amount, and lien position are also considered in assessing whether to originate a loan. These borrowers are particularly susceptible to downturns in economic trends such as conditions that negatively affect housing prices and demand and levels of unemployment.

The following table provides a description of each of the Company's portfolio segments, loan classes, loan pools and the ACL methodology and loss drivers:

Portfolio Segment	Loan Class	Methodology	Loss Drivers
Loans secured by real estate			
	Land Development and Construction	Loss Rate	CRE Price Index, Real GDP, US Unemployment
	Farmland	Loss Rate	CRE Price Index, Real GDP, US Unemployment
	1-4 Family Mortgages	Loss Rate	CRE Price Index, Real GDP, US Unemployment
	Commercial Real Estate	Loss Rate	CRE Price Index, Real GDP, US Unemployment
Business loans			
	Commercial and Industrial Loans	Loss Rate	US Unemployment, Nominal GDP
	Farm Production and Other Farm Loans	Loss Rate	US Unemployment, Nominal GDP
Consumer loans			
	Consumer Loans	Loss Rate	Moody's Expected Consumer Credit Loss Model
	Credit Cards	WARM	Company loss history
	Overdraft	WARM	Company loss history

Note 5. Continued

The Loss Rate model is designed to operate at the portfolio segment level. These segments are relatively homogenous groups of loans with similar characteristics. Based on the average inputs of each segment, the model then calculates both quarterly and lifetime loss rates for the entire segment by loan. The lifetime loss rate is then multiplied by the amortized cost of each loan within a class to get a quantitative reserve.

The Company chose the Weighted Average Remaining Maturity ("WARM") method for two loan classes that are relatively non-complex. The WARM methodology factors in the remaining life of each applicable loan class that must be calculated to be used within the quantitative model.

The Company determined that reasonable and supportable forecasts could be made for a twelve-month period for all of its loan pools. To the extent the lives of the loans in the LHFI portfolio extend beyond this forecast period, the Company uses a reversion period of four quarters and reverts to the historical mean on a straight-line basis over the remaining life of the loans. The econometric models currently in production reflect segment or pool level sensitivities of probability of default to changes in macroeconomic variables. By measuring the relationship between defaults and changes in the economy, the quantitative reserve incorporates reasonable and supportable forecasts of future conditions that will affect the value of its assets, as required by FASB ASC Topic 326.

In addition to the items mentioned above, the Company incorporates qualitative factors into the ACL methodology, including the following:

- Lending expertise
- Risk tolerance measured through lending policy requirements
- Quality of the loan review system
- Changes in collateral valuations
- External factors within the Company's operating region, including economic conditions
- Impact of competition

The qualitative reserve is calculated by taking the quantitative reserve rate and multiplying this rate by the qualitative factor ("Q-factor") scalar. The Q-factor scalar takes the average of all the Q-factors selected for a specific loan class. Each Q-factor is given a rating between 0 to 100 basis points ("bps"), with the 0 being no risk to 100 bps being the highest risk impact. Each Q-factor is evaluated and adjusted quarterly using both internal and external reports and data.

Note 5. Continued

The following table details activity in the ACL by portfolio segment for the twelve months ended December 31, 2023:

	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2023	$ 4,154	$ 713	$ 397	$ 5,264
FASB ASU 2016-13 adoption adjustment	665	56	(86)	635
PCL	626	(189)	27	464
Chargeoffs	22	83	148	253
Recoveries	218	39	184	441
Net recoveries	(196)	44	(36)	(188)
Ending Balance December 31, 2023	$ 5,641	$ 536	$ 374	$ 6,551
Period end allowance allocated to:				
Loans individually evaluated for impairment	$ 56	$ -	$ 86	$ 142
Loans collectively evaluated for impairment	5,585	536	288	6,409
Ending Balance, December 31, 2023	$ 5,641	$ 536	$ 374	$ 6,551
December 31, 2023				
Loans individually evaluated for specific impairment	$ 2,399	$ 1,404	$ 224	$ 4,027
Loans collectively evaluated for general impairment	528,755	92,080	17,166	638,001
	$ 531,154	$ 93,484	$ 17,390	$ 642,028

The following table details activity in the ACL by portfolio segment, based on the Company's former allowance methodology prior to the adoption of ASC 326, for the twelve months ended December 31, 2022:

	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2022	$ 3,622	$ 645	$ 246	$ 4,513
PCL	279	96	(251)	124
Chargeoffs	8	61	110	179
Recoveries	261	33	512	806
Net chargeoffs (recoveries)	(253)	28	(402)	(627)
Ending Balance December 31, 2022	$ 4,154	$ 713	$ 397	$ 5,264
Period end allowance allocated to:				
Loans individually evaluated for impairment	$ 116	$ -	$ -	$ 116
Loans collectively evaluated for impairment	4,038	713	397	5,148
Ending Balance, December 31, 2022	$ 4,154	$ 713	$ 397	$ 5,264
December 31, 2022				
Loans individually evaluated for specific impairment	$ 3,081	$ 196	$ -	$ 3,277
Loans collectively evaluated for general impairment	469,776	96,808	15,730	582,314
	$ 472,857	$ 97,004	$ 15,730	$ 585,591

The Company recorded a PCL of $669 during 2023, as compared to a PCL of $124 recorded in 2022. The Company's ACL model considers economic projections, primarily the national unemployment rate, recessionary risks, gross domestic product (GDP) and commercial real estate (CRE) price fluctuations.

Note 5. Continued

The following table represents gross charge-offs by year of origination for the date presented:

	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total Charge-Offs
Gross Charge-Offs								
December 31, 2023								
Loans secured by real estate:								
Commercial Real Estate	$ -	$ -	$ -	$ -	$ 5	$ 17	$ -	$ 22
Total Real Estate Loans	-	-	-	-	5	17	-	22
Business Loans								
Commercial and Industrial Loans	5	-	-	-	-	78	-	83
Total Business Loans	5	-	-	-	-	78	-	83
Total Consumer Loans	12	28	6	4	-	-	-	50
Total Credit Card	-	-	-	-	-	-	98	98
Total gross charge-offs	$ 17	$ 28	$ 6	$ 4	$ 5	$ 95	$ 98	$ 253

ACL for Off-Balance Sheet Credit Exposure

The Company maintains a separate ACL for Off-Balance Sheet Credit Exposure, which is included in the "Other liabilities" line item on the Consolidated Statements of Financial Condition. The Company estimates the amount of expected losses on off-balance sheet credit exposure by calculating a likelihood of funding over the contractual period for exposures that are not unconditionally cancellable by the Company and applying the loss factors used in the ACL on loans methodology described above to unfunded commitments for each loan type. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company.

The following table provides a roll-forward of the ACL for off-balance sheet credit exposure for the period presented:

	For the Twelve Months Ended December 31, 2023
ACL for off-balance sheet credit exposure:	
Beginning balance	$ -
FASB ASU 2016-13 adoption adjustment	677
PCL for off-balance sheet credit exposure	205
Ending Balance	$ 882

The Company recorded a PCL for off-balance sheet credit exposure for the twelve months ended December 31, 2023 of $205. The Company's ACL model considers economic projections, primarily the national unemployment rate, recessionary risks, GDP and CRE price fluctuations. The provision during the year was primarily driven by increased recessionary risk due to inflationary pressures partially offset by a decrease in unfunded loan commitments.

Note 6. Derivative Instruments

The Company uses certain derivative instruments to meet the needs of customers as well as to manage the interest rate risk associated with certain transactions.

Derivatives designated as fair value hedges

Fair value hedges protect against changes in the fair value of an asset, liability, or firm commitment. The Company enters into interest rate swap agreements to manage interest rate exposure on certain of the Company's fixed-rate investment portfolio. The agreements convert the fixed interest rates to variable interest rates.

The following table provides a summary of the Company's derivatives designated as fair value hedges as of the dates presented:

	Statement of Financial Condition Location	**December 31,2023**		**December 31, 2022**	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative Assets:					
Interest rate swaps	Other Assets	$ 66,600	$ 865	$ -	$ -

The following table presents the effects of the Company's fair value hedge relationships on the Consolidated Statements of Income for the periods presented:

	Income Statement Location	**Amount of Gain (Loss) Recognized in Income**	
		Twelve Months Ended December 31,	
		2023	2022
Derivative assets:			
Interest rate swaps - investment securities	Interest Income	$ 286	$ -
Derivative assets - hedged items:			
Interest rate swaps - investment securities	Interest Income	$ (286)	$ -

Note 7. Bank Premises, Furniture, Fixtures and Equipment

(in thousands)

Bank premises, furniture, fixtures and equipment consist of the following at December 31, 2023 and December 31, 2022:

	2023	**2022**
Land and buildings	$ 35,304	$ 35,120
Furniture, fixtures and equipment	7,921	8,522
	43,225	43,642
Less accumulated depreciation	16,152	15,937
Total	$ 27,073	$ 27,705

Note 7. Continued

Depreciation expense for the years ended December 31, 2023, 2022 and 2021, respectively, was $1,328, $1,166, and $1,064.

The Company leases certain premises and equipment under operating leases. At December 31, 2023, the Company had lease liabilities and right-of-use ("ROU") assets totaling $490 related to these leases. Lease liabilities and ROU assets are reflected in other liabilities and other assets, respectively. For the year ended December 31, 2023, the weighted average remaining lease term for operating leases was 4.2 years and the weighted average discount rate used in the measurement of operating lease liabilities was 1.45%.

Lease costs for the twelve months ended December 31 were:

	December 31, 2023	**December 31, 2022**
(in thousands)		
Operating lease cost	$ 163	$ 144
	$ 163	$ 144

There were no sale and leaseback transactions, leverage leases or lease transactions with related parties during the year ended December 31, 2023 and 2022.

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

	December 31, 2023
Lease payments due:	
Within one year	$ 124
After one year but within two years	$ 124
After two years but within three years	124
After three year but within four years	124
After four years but within five years	30
After five years	-
Total undiscounted cash flows	525
Discount on cash flows	(35)
Total lease liability	$ 490

Note 8. Goodwill and Other Intangible Assets

(in thousands)

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

	Total
Balance at December 31, 2021	$ 13,030
Addition to goodwill from acquisition	-
Balance at December 31, 2022	13,030
Addition to goodwill from acquisition	-
Balance at December 31, 2023	$ 13,030

There were no changes to goodwill during the year ended December 31, 2023. The Company performed a goodwill impairment test for 2023 and concluded that no impairment charge was required.

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

	2023	2022
Core deposit intangible	$ 412	$ 521
Accumulated amortization	(111)	(109)
Total finite-lived intangible assets	$ 301	$ 412

Core deposit intangible amortization expense for the years ended December 31, 2023, 2022 and 2021 was $109, $109 and $109, respectively. The estimated amortization expense of finite-lived intangible assets for the five succeeding fiscal years is summarized as follows:

Year Ending December 31,	Amount
2024	111
2025	111
2026	79
	$ 301

Note 9. Deposits

(in thousands)

The composition of deposits as of December 31, 2023 and December 31, 2022 is as follows:

	2023	2022
Non-interest bearing	$ 264,528	$ 299,112
NOW and money market accounts	546,329	515,337
Savings deposits	112,693	133,030
Time deposits, $250,000 or more	59,226	44,370
Other time deposits	187,301	134,553
Total	$ 1,170,077	$ 1,126,402

The scheduled maturities of time deposits at December 31, 2023 are as follows:

Year Ending December 31,	Amount
2024	$ 194,894
2025	16,844
2026	17,230
2027	13,312
2028 and thereafter	4,247
	$ 246,527

Note 10. Short-Term Borrowings

(in thousands)

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

	2023	2022
Securities sold under agreements to repurchase	$ 158,086	$ 127,574
Federal funds purchased	-	-
Federal Home Loan Bank short-term advances	-	-
Total short-term borrowings	$ 158,086	$ 127,574

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.

Note 10. Continued

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.

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, 2023 and 2022, the balance in qualifying first mortgages and other loans was $179,107 and $160,488 respectively.

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

	Average Balances		Cost of Funds	
	2023	**2022**	**2023**	**2022**
Securities sold under agreements to repurchase	$ 144,729	$ 113,893	3.76%	1.06%
Federal funds purchased	826	779	5.34%	2.70%
Federal Home Loan Bank short-term advances	1,940	7,111	4.76%	1.50%
Total short-term borrowings	$ 147,495	$ 121,783	3.78%	1.10%

Note 11. Long-Term Debt

(in thousands)

Long-term debt as of December 31, 2023 and 2022 is summarized as follows:

	2023	**2022**
Secured line of credit	$ 18,000	$ 18,000
Total long-term debt	$ 18,000	$ 18,000

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 8.50%, which is payable quarterly on the first day of each calendar quarter, commencing on July 1, 2022, 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, 2024, at which time all unpaid interest and principal is due and payable. As of September 30, 2023 the Company did not meet the Return on Average Assets covenant set forth in the applicable loan agreement of 50 basis points on a rolling four quarter basis. The Company failed the return on average assets covenant with a four quarter rolling average of 47 basis points. The loan agreement does not provide a grace or cure period for the default, which would constitute a default in 2023.

Note 11. Continued

However, the Company met all other requirements set forth in the agreement as of December 31, 2023.

The aggregate stated maturities of long-term debt outstanding at December 31, 2023, are summarized as follows:

Year Ending December 31,		**Amount**
2024	$	18,000
Thereafter		-
	$	18,000

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:

Other Income		2023		2022		2021
BOLI insurance	$	483	$	444	$	517
Mortgage loan origination income		306		652		1,305
Other income		1,708		1,625		1,208
Total Other income	$	2,497	$	2,721	$	3,030

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 Expense		2023		2022		2021
Advertising	$	566	$	610	$	573
Office supplies		1,020		1,016		1,007
Professional fees		1,137		1,144		1,039
FDIC and state assessment		934		830		879
Technology expense		438		441		520
Postage and freight		584		588		618
Loan collection expense		73		28		89
Other losses		524		442		295
Debit card/ATM expense		890		799		733
Other expenses		3,593		3,169		3,086
Total Other Expense	$	9,759	$	9,067	$	8,839

Note 13. Income Taxes

(in thousands)

Income tax expense consists of the following:

	2023	2022	2021
Current payable			
Federal	$ 73	$ 993	$ 525
State	215	487	340
	288	1,480	865
Deferred tax (benefit) expense	(362)	401	566
Income tax (benefit) expense	$ (74)	$ 1,881	$ 1,431

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

	2023	2022	2021
Federal taxes based on statutory rate	$ 374	$ 2,415	$ 1,874
State income taxes, net of federal benefit	159	384	336
Tax-exempt investment interest	(543)	(836)	(593)
Income related to bank-owned life insurance	(165)	(159)	(218)
Other, net	101	77	32
Income tax (benefit) expense	$ (74)	$ 1,881	$ 1,431

Note 13. Continued

At December 31, 2023 and December 31, 2022, net deferred tax assets consisted of the following:

	2023	2022
Deferred tax assets		
ACL	$ 1,854	$ 1,313
Deferred compensation liability	2,503	2,491
Other real estate owned	251	261
Unrealized loss on securities available-for-sale	25,146	27,617
Other	488	51
Total	30,242	31,733
Deferred tax liabilities		
Premises and equipment	1,941	1,908
Core deposit intangible	75	102
Other	218	147
Total	2,234	2,159
Net deferred tax asset	$ 28,008	$ 29,574

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

As of December 31, 2023, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of December 31, 2023, 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, 2021 through 2023. The Company and Bank's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2021 through 2023.

The Company acquired federal net operating losses as part of an acquisition, with varying expiration periods. The federal net operating losses ("NOLs") acquired were $2,302. The Company utilized the remaining $447 of the NOLs in 2022. No NOLs remained in 2023.

Note 14. Summarized Financial Information of Citizens Holding Company

Summarized financial information of Citizens Holding Company, excluding the Bank, at December 31, 2023 and December 31, 2022, and for the years ended December 31, 2023, 2022 and 2021, is as follows:

Balance Sheets

December 31, 2023 and 2022

	2023	2022
Assets		
Cash [1]	$ 234	$ 526
Investment in bank subsidiary [1]	60,061	56,373
Other assets [1]	478	444
Total assets	$ 60,773	$ 57,343
Liabilities		
Secured line of credit	$ 18,000	$ 18,000
Accrued interest payable	-	318
Total liabilities	$ 18,000	$ 18,318
Shareholders' equity	42,773	39,025
Total liabilities and shareholders' equity	$ 60,773	$ 57,343

[1] Fully or partially eliminates in consolidation.

Income Statements

Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
Interest income[1]	$ -	$ -	$ 1
Other income			
Dividends from bank subsidiary[1]	5,383	6,128	4,104
Equity in undistributed earnings of bank subsidiary[1]	(2,110)	4,546	3,995
Other income	7	21	-
Total other income	3,280	10,695	8,099
Other expense	1,872	1,417	820
Income before income taxes	1,408	9,278	7,280
Income tax benefit	(446)	(342)	(214)
Net income	$ 1,854	$ 9,620	$ 7,494

[1] Eliminates in consolidation.

Note 14. Continued

Statements of Cash Flows
Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
Cash flows from operating activities			
Net income	$ 1,854	$ 9,620	$ 7,494
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed loss (earnings) of the Bank	2,109	(4,546)	(3,995)
(Gain) on sale of real estate acquired in foreclosure	(21)	-	-
Writedown on Other Real Estate	37	-	-
Stock compensation expense	140	157	161
Increase in other assets	(32)	(94)	(60)
Increase (decrease) in other liabilities	(320)	318	-
Net cash provided by operating activities	3,767	5,455	3,600
Cash flows from investing activities			
Decrease (increase) in ownership in subsidiary	$ -	$ 38	$ (18,000)
Increase in other real estate owned	(38)	(38)	-
Proceeds from sale of other real estate owned	21	21	-
Net cash (used in) provided by investing activities	(17)	21	(18,000)
Cash flows from financing activities			
Dividends paid to shareholders	$ (4,042)	$ (5,377)	$ (5,370)
Proceeds from borrowings on secured line of credit	-	-	18,000
Net cash (used in) provided by financing activities	(4,042)	(5,377)	12,630
Net (decrease) increase in cash	(292)	99	(1,770)
Cash, beginning of year	526	427	2,197
Cash, end of year	$ 234	$ 526	$ 427

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

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, 2023 and December 31, 2022 approximated $172,597 and $157,642, 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, 2023, 2022, and 2021 were $62, $49, and $128, respectively. Additionally, one director is associated with a business which provides insurance to the Company in which the amounts paid for this service in 2023, 2022, and 2021 were $265, $273, and $280, 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 statements of financial condition. 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, 2023 and December 31, 2022, commitments related to unused lines of credit were $99,369 and $75,602, respectively, and standby letters of credit were $16,089 and $5,438, respectively. The fair value of such commitments is not materially different than stated values. As some of these commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company applies the same credit policies and standards as it does in the lending process when making these commitments. The collateral obtained is based upon the assessed credit worthiness of the borrower. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Note 16: Continued

Interest Rate Risk

The Company is principally engaged in providing short-term and medium-term installment, commercial and agricultural loans with interest rates that are fixed or fluctuate with the prime lending rate. These assets are primarily funded through short-term demand deposits and long-term certificates of deposit with variable and fixed rates. Accordingly, the Company is exposed to interest rate risk because in changing interest rate environments interest rate adjustments on assets and liabilities may not occur at the same time or in the same amount.

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, 2023 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 ACL. See Note 4 for a summary of loans by type.

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 2023, 2022 and 2021, the Company's contributions were $720, $696 and $720, respectively.

Note 17. Continued

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 $174, $162 and $146 for the plan years ended December 31, 2023, 2022 and 2021, 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 $940, $725 and $788 for the plan years ended December 31, 2023, 2022 and 2021, respectively.

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, 2023, 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%.

Note 18. Continued

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

Beginning January 1, 2015, the Bank began to comply with the Basel III rules, which became effective on January 1, 2020. 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.

Note 18. Continued

As of December 31, 2023 and 2022, 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
December 31, 2023						
Citizens Holding Company						
Tier 1 leverage ratio	$ 106,544	7.43%	$ 71,680	5.00%	$ 57,344	4.00%
Common Equity tier 1 capital ratio	106,544	7.43%	93,185	6.50%	64,512	4.50%
Tier 1 risk-based capital ratio	106,544	11.95%	71,353	8.00%	53,515	6.00%
Total risk-based capital ratio	113,239	12.70%	89,192	10.00%	71,353	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	$ 123,832	8.64%	$ 71,653	5.00%	$ 57,322	4.00%
Common Equity tier 1 capital ratio	123,832	8.64%	93,149	6.50%	64,488	4.50%
Tier 1 risk-based capital ratio	123,832	13.89%	71,315	8.00%	53,486	6.00%
Total risk-based capital ratio	130,526	14.64%	89,144	10.00%	71,315	8.00%
December 31, 2022						
Citizens Holding Company						
Tier 1 leverage ratio	$ 108,756	7.96%	$ 68,352	5.00%	$ 54,682	4.00%
Common Equity tier 1 capital ratio	108,756	13.19%	88,858	6.50%	61,517	4.50%
Tier 1 risk-based capital ratio	108,756	13.19%	65,951	8.00%	49,463	6.00%
Total risk-based capital ratio	114,020	13.83%	82,438	10.00%	65,951	8.00%
The Citizens Bank of Philadelphia						
Tier 1 leverage ratio	$ 126,105	9.23%	$ 68,333	5.00%	$ 54,667	4.00%
Common Equity tier 1 capital ratio	126,105	15.34%	88,833	6.50%	61,500	4.50%
Tier 1 risk-based capital ratio	126,105	15.34%	65,759	8.00%	49,320	6.00%
Total risk-based capital ratio	131,370	15.98%	82,199	10.00%	65,759	8.00%

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).

Derivative Instruments

Most of the Company's derivative contracts are actively traded in over-the-counter markets and are valued using discounted cash flow models which incorporate observable market based inputs including current market interest rates, credit spreads, and other factors. Such instruments are categorized within Level 2 of the fair value hierarchy and include interest rate swaps. The Company's interest rate lock commitments are valued using current market prices for mortgage-backed securities with similar characteristics, adjusted for certain factors including servicing and risk.

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2023:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Derivative instruments	$ -	$ 865	$ -	$ 865
Securities available for sale				
Mortgage-backed securities	-	84,372	-	84,372
State, County, Municipals	-	92,978	-	92,978
Other securities	-	445	-	445
	$ -	$ 178,660	$ -	$ 178,660

The following table presents investment securities that are measured at fair value on a recurring basis as of December 31, 2022:

	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				
Mortgage-backed securities	-	96,972	-	96,972
State, County, Municipals	-	103,913	-	103,913
Other securities	-	437	-	437
	$ -	$ 201,322	$ -	$ 201,322

Note 19. Continued

Individually Evaluated Loans

For loans that do not share similar risk characteristics with other loans, an individual analysis is performed to determine the expected credit loss. If the respective loan is collateral dependent (that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral), the expected credit loss is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral. The fair value of collateral is initially based on external appraisals. Generally, collateral values for loans for which measurement of expected losses is dependent on the fair value of such collateral are updated every twelve months, either from external third parties or in-house certified appraisers. Third-party appraisals are obtained from a pre-approved list of independent, local appraisal firms. The fair value of the collateral derived from external appraisal is then adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. Other acceptable methods for determining the expected credit losses for individually evaluated loans (typically used when the loan is not collateral dependent) is a discounted cash flow approach or, if applicable, an observable market price. Once the expected credit loss amount is determined, an allowance equal to such expected credit loss is included in the ACL. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Individually evaluated 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 ACL. 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. Given that fair value, when recorded, is determined based on appraisals by qualified licensed appraisers and adjusted for management's estimates of costs to sell, values for OREO are classified as Level 3.

Note 19. Continued

The following table presents assets measured at fair value on a nonrecurring basis during December 31, 2023 and 2022 and were still held at those respective dates:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
December 31, 2023				
Loans individually evaluated for impairment	$ -	$ -	$ 2,082	$ 2,082
Other real estate owned	-	-	260	260
	$ -	$ -	$ 2,342	$ 2,342
December 31, 2022				
Loans individually evaluated for impairment	$ -	$ -	$ 2,074	$ 2,074
Total	$ -	$ -	$ 2,074	$ 2,074

Individually evaluated loans with a carrying value of $2,224 and $2,190 had an allocated ACL of $142 and $116 at December 31, 2023 and December 31, 2022, 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 $0 and $-0- was necessary and recorded during the year ended December 31, 2023 and December 31, 2022, respectively.

Note 19. Continued

The following represents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2023 and December 31, 2022:

2023	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets					
Cash and due from banks	$ 14,553	$ 14,553	$ -	$ -	$ 14,553
Interest bearing deposits with banks	79,923	79,923	-	-	79,923
Securities held-to-maturity	387,799	-	355,418	-	355,418
Securities available-for-sale	177,795	-	177,795	-	177,795
Net LHFI	634,394	-	-	606,273	606,273
Derivative instruments	865	-	865	-	865
Financial liabilities					
Deposits	1,170,077	923,551	221,882	-	1,145,433
Short-term borrowings	158,086	158,086	-	-	158,086
Borrowings on secured line of credit	18,000	18,000	-	-	18,000

2022	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets					
Cash and due from banks	$ 26,948	$ 26,948	$ -	$ -	$ 26,948
Interest bearing deposits with banks	1,646	1,646	-	-	1,646
Securities held-to-maturity	406,590	-	375,292	-	375,292
Securities available-for-sale	201,322	-	201,322	-	201,322
Net loans	580,052	-	-	541,173	541,173
Financial liabilities					
Deposits	1,126,402	947,479	178,902	-	1,126,381
Short-term Borrowings	127,574	127,574	-	-	127,574
Borrowings on secured line of credit	18,000	18,000	-	-	18,000

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, 2023. 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 2023 or 2022, therefore no calculations were required in 2023 or 2022 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 2023, the Company's directors received restricted stock grants totaling 9,000 shares of common stock at a then market value of $12.48 per share and in 2022 received 8,250 shares of common stock at a then market value of $19.05 per share. The Chief Executive Officer ("CEO) also received restricted stock grants totaling 3,868 common stock at a then market value of $15.51. 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 2023 was $138 and will be recognized ratably over the one-year vesting period. The grant date fair value of the shares granted in 2022 was $157 and was recognized ratably over the one-year vesting period.

During 2023 and 2022, the Company recorded expense of $138 and $157 related to all of the restricted shares.

At December 31, 2023, there were 9,000 shares non-vested with $52 in unrecognized stock-based compensation expense related to the 2013 Plan.

Note 20. Continued

Following is a summary of the status of the stock options remaining under the plans for the years ending December 31, 2023, 2022 and 2021:

	Directors' Plan		
	Number of Shares		Weighted Average Exercise Price
Outstanding at January 1, 2021	19,500	$	19.42
Granted	-		-
Exercised	-		-
Expired	(10,500)		20.02
Outstanding at December 31, 2021	9,000	$	18.76
Granted	-		-
Exercised	-		-
Expired	(9,000)		18.76
Outstanding at December 31, 2022	-	$	-
Granted	-		-
Exercised	-		-
Expired	-		-
Outstanding at December 31, 2023	-	$	-
Options exercisable at:			
December 31, 2023	-	$	-

Note 20. Continued

The intrinsic value of options outstanding under the Directors' Plan at December 31, 2023 was $-0-. Additionally, the total intrinsic value of options exercised during 2023 and 2022 was $-0- and $-0-, respectively.

There were no options granted during 2023 or 2022 under the 2013 Plan.

Note 21. Subsequent Events

Sale Leaseback

The Company executed a sale leaseback of three separate locations on January 16, 2024. The Company recognized a net gain of $4,535 in January 2024 related to the sales.

These leases will be recognized as operating leases and will be accounted for in 2024.

Revolving Credit Line

Due to not meeting the Return on Average Assets covenant set forth in our revolving line of credit agreement with First Horizon, the Company was in violation of the agreement as of December 31, 2023. The Company obtained a waiver of the debt covenant in January 2024, however, First Horizon did not waive its rights regarding any future covenant breaches. As part of the waiver agreement, in January 2024, the Company deposited $1,800 with First Horizon, and the line of credit was reduced to $18,000.

Other 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 other significant events occurred after December 31, 2023 but prior to the issuance of these financial statements that would have a material impact on its Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2023, 2022 and 2021

(in thousands)

OVERVIEW

The following information discusses the financial condition and results of operations of Citizens Holding Company (the "Company") as of December 31, 2023, 2022 and 2021. 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, 2023 was $1,854, a decrease of ($7,766), or (80.73%) compared to $9,620 at December 31, 2022. Net income decreased year-over-year primarily due to the interest rate increases by the Federal Reserve Bank during 2022 and 2023, which in turn caused deposits to reprice higher.

The Company continued to maintain and expand customer relationships as reflected by the deposit growth of $43,675, or 3.88%, to $1,170,077 at December 31, 2023 compared to $1,126,402 at December 31, 2022. The deposit increase was primarily driven by Negotiable Order of Withdrawal ("NOW") and Money Market ("MMDA") accounts which grew $30,992, or 6.01%, when compared to December 31, 2022.

The actions taken to mitigate the economic impact of the COVID-19 pandemic during 2020 and 2021, including but not limited to the Paycheck Protection Program, the Federal Reserve Bank ("FRB") slashing rates to 0 bps immediately, multiple rounds of economic stimulus in the trillions of dollars all while limiting the amount of economic output that could occur caught up with the economy in 2022 and early 2023 causing record levels of inflation across the globe. While inflation started to subside throughout 2023, it still remains elevated above the FRB's 2% target. Throughout 2022 and 2023, the FRB hiked the federal funds rate by 525 bps in addition to methodically shrinking its balance sheet in an effort to slow the economy and ultimately inflation. Since the latter part of 2023, the FRB has been on pause to assess the impact of their efforts to slow the economy. As we head into 2024, the FRB and the markets have forecasted rate cuts sometime in 2024, likely the second half of the year. While the interest rate outlook remains uncertain, the Company's balance sheet is well positioned for falling rates and would benefit if the FRB does in fact cut rates.

The housing market came to a halt in the fourth quarter of 2022 and there was minimal housing activity in 2023 as well due to a lack of supply coupled with the fact that many homeowners refinanced their homes at much lower rates causing home selling to slow to historic lows. However, the commercial real estate market remained modestly robust throughout 2023 and heading into 2024. We were able to grow loans year over year, primarily in the land development and construction and commercial real estate categories. As we head into 2024, the Company's pipeline remains positive and the economic outlook would be favorable in the Company's operating markets should the forecasts hold true.

Additionally, deposit competition remains elevated but there are signs of softening in certain markets. This drove up funding costs in 2023 but as we head into 2024, the Company saw margin expansion in late 2023 and we expect that trend to continue in 2024 due to the FRB pausing rate hikes and our focus on higher yielding assets, primarily loans.

The Company and Bank remain well capitalized with all capital ratios above the regulatory requirements. The Bank's leverage capital ratio decreased from 9.23% at December 31, 2022 to 8.64% at December 31, 2023. The Tier 1 capital ratio for the Company and Bank was 7.43% and 8.64%, respectively, at December 31, 2023.

The Company's return on average assets ("ROA") was 0.14% in 2023, compared to 0.72% in 2022 and 0.53% in 2021. The Company's return on average equity ("ROE") was 4.89% in 2023, 15.30% in 2022 and 6.74% in 2021. During the 2021 to 2023 period, the Company's leverage capital ratios (the ratio of equity to average total assets) were 7.80% in 2021, 7.96% in 2022, and 7.43% in 2023. The ROE in 2022, 2021 and 2020 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 change in total assets during these time periods. The Company set the annual dividend payout rate to approximately 218.18% of 2023 earnings per share, as compared to 55.81% in 2022 and 71.64% in 2021.

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 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 under the heading, *Liquidity and Rate Sensitivity*. The Company's only commitment at December 31, 2023 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 a material impact on its revenues or net income outside of the recessionary risks inherent entering 2024. Interest rates are currently projected to go down in the second half of 2024. As previously mentioned, the Company's liability-sensitive balance sheet is well-positioned for rate cuts, should they materialize. Also, the Company works to be proactive in monitoring the recessionary risks and impacts to its employees, customers and communities. Although the ultimate outcome 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.

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 Credit Losses

Described more fully in our audited financial statements in Part I of this annual report, especially Note 1, Impact of Recently-Issued Accounting Standards and Pronouncements and Note 5, ACL on LHFI, on January 1, 2023, the Company adopted ASC 326. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit.

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 ACL 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;
- natural disasters, civil unrest, epidemics and other catastrophic events in the Company's geographic area;
- the impact of increasing inflation rates on the general economic, market or business conditions;
- 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, in particular with respect to deposits, 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;
- climate change and societal responses to climate change could adversely affect the Company's business and results of operations, including indirectly through impact to its customers;
- 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;
- increased cybersecurity risk, including network breaches, business disruptions or financial losses;
- 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;
- risks associated with national and global events, such as the conflict between Russia and Ukraine and supply chain disruptions;
- risks associated with the failures of Silicon Valley Bank, Signature Bank and First Republic Bank, which have resulted in significant market volatility and less confidence in depository institutions;
- internal and external factors affecting net interest margin; 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 2023 decreased by (80.73%) to $1,854 or $0.33 per share-basic and -diluted, from $9,620 or $1.72 per share-basic and -diluted for 2022. The PCL for 2023 was $669 as compared to $124 in 2022. The increase in the provision is mainly attributed to the fact that the Company was in a smaller net recovery position for the year ended December 31, 2023 partially offset with increases in qualitative factors due to the FRB's restrictive monetary policy coupled with recessionary risks for the near future. Noninterest income decreased by $151, or (1.39%), and non-interest expense increased by $3,994 or 11.69%, in 2023. Non-interest income for 2023 decreased primarily as a result of a decrease in the net gains on sales of securities partially offset by increased interchange fees and overdraft fees. Non-interest expenses increased mainly due to an increase in salaries and employee benefits and a net loss on securities sold.

Net income for 2022 increased by 28.37% to $9,620 or $1.72 per share-basic and -diluted, from $7,494 or $1.34 per share-basic and -diluted for 2021. The PCL for 2022 was $124 as compared to $1,409 in 2021. The decrease in the provision is mainly attributed to the fact that the Company was in a large net recovery position for the year ended December 31, 2022 partially offset with increases in qualitative factors due to the FRB's restrictive monetary policy coupled with recessionary risks for the near future. Noninterest income decreased by $1,304, or (10.70%), and non-interest expense decreased by $1,180 or (3.34%), in 2022. Non-interest income for 2022 decreased primarily as a result of a decrease in the net gains on sales of securities partially offset by increased interchange fees and overdraft fees. Noninterest expense decreased mainly due to a decrease in salaries and benefits and write-downs of OREO partially offset by the continued investment in customer facing and internal technology.

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 $31,186, $36,049 and $34,340 for the years 2023, 2022 and 2021, respectively. Net interest margin was 2.45%, 2.80% and 2.60% for the same periods. In 2023 as compared to 2022, interest-bearing assets increased by $97,998, or 8.22% and interest-bearing liabilities increased by $108,771, or 11.18%. For the year ended December 31, 2023, the average yield on earnings assets was 3.97%, an increase of 80 basis points compared to the average yield at December 31, 2022. The average rate paid on interest-bearing liabilities in 2023 was 1.90%, an increase of 141 basis point compared to the average rate at December 31, 2022.

During 2022 as compared to 2021, interest-bearing assets decreased by $81,283, or (6.38%) and interest-bearing liabilities increased by $29,324, or 2.39%. For the year ended December 31, 2022, the average yield on earnings assets was 3.17%, an increase of 19 basis points compared to the average yield at December 31, 2021. The average rate paid on interest-bearing liabilities was 0.49%, a decrease of 1 basis point compared to the average rate at December 31, 2021.

During this three-year period, loans outstanding increased in 2022 and 2023. In 2021 loans decreased significantly due to increased competition and stagnant loan demand due to the continued effects 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 increase in the interest earning assets yield with the yield increasing significantly due to rate increases during 2023 which drove decreased prepayments on mortgage-backed securities.

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 years ended December 31, 2023, 2022 and 2021.

TABLE 1 – AVERAGE BALANCE SHEETS AND INTEREST RATES

(in thousands)

	Average Balance			Income/Expense			Average Yield/Rate		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Loans:									
Loans, net of unearned(1)	$ 587,785	$ 586,435	$ 628,618	$ 33,101	$ 27,311	$ 31,327	5.63%	4.66%	4.98%
Investment Securities									
Taxable	432,029	465,386	496,946	10,287	8,066	4,441	2.38%	1.73%	0.89%
Tax-exempt	199,661	210,895	148,977	4,184	5,059	3,498	2.10%	2.40%	2.35%
Total Investment Securities	631,690	676,281	645,923	14,471	13,125	7,939	2.29%	1.94%	1.23%
Federal Funds Sold and Other	55,366	23,574	44,451	2,981	370	55	5.38%	1.57%	0.12%
Total Interest Earning Assets(1)(2)	1,274,841	1,286,290	1,318,992	50,553	40,806	39,321	3.97%	3.17%	2.98%
Non-Earning Assets	78,466	56,944	93,090						
Total Assets	$1,353,307	$1,343,234	$1,412,082						
Deposits:									
Interest-bearing Demand Deposits (3)	$ 520,486	$ 486,636	$ 487,894	$ 6,369	$ 929	$ 1,324	1.22%	0.19%	0.27%
Savings	120,300	133,739	118,063	348	133	120	0.29%	0.10%	0.10%
Time	212,655	202,315	245,886	5,498	1,442	2,783	2.59%	0.71%	1.13%
Total Deposits	853,441	822,690	851,843	12,215	2,504	4,227	1.43%	0.30%	0.50%
Borrowed Funds									
Short-term Borrowings	147,496	121,783	135,282	5,651	1,338	401	3.83%	1.10%	0.30%
Long-term Borrowings	18,000	18,000	9,692	1,501	915	353	8.34%	5.08%	3.64%
Total Borrowed Funds	165,496	139,783	144,974	7,152	2,253	754	4.32%	1.61%	0.52%
Total Interest-Bearing Liabilities (3)	1,018,937	962,473	996,817	19,367	4,757	4,981	1.90%	0.49%	0.50%
Non-Interest Bearing Liabilities									
Demand Deposits	281,820	305,247	289,883						
Other Liabilities	11,651	12,624	14,193						
Shareholders' Equity	40,899	62,890	111,189						
Total Liabilities and Shareholders' Equity	$1,353,307	$1,343,234	$1,412,082						
Interest Rate Spread							2.07%	2.68%	2.48%
Net Interest Margin				$ 31,186	$ 36,049	$ 34,340	2.45%	2.80%	2.60%
Less Tax Equivalent Adjustment				1,308	1,140	846			
Net Interest Income				$ 29,878	$ 34,909	$ 33,494			

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

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

(3) Demand deposits are not included in the average volume calculation as they are not interest bearing liabilities. They are included within the non-interest bearing liabilities section above.

Table 2 – Net Average Interest Earning Assets illustrates net interest earning assets and liabilities for 2023, 2022, and 2021.

TABLE 2 – NET AVERAGE INTEREST EARNING ASSETS

(in thousands)

	2023	2022	2021
Average interest earning assets	$ 1,274,841	$ 1,286,290	$ 1,318,992
Average interest bearing liabilities	1,018,937	962,473	996,817
Net average interest earning assets	$ 255,904	$ 323,817	$ 322,175

Table 3 – Volume/Rate Analysis depicts the effect on interest income and interest expense of changes in volume and changes in rate from 2021 through 2023. 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 2023 and 2022, respectively.

TABLE 3 – VOLUME/RATE ANALYSIS

	(in thousands) 2023 Change from 2022			2022 Change from 2021		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST INCOME						
Loans	$ 63	$ 5,727	$ 5,790	$ (2,102)	$ (1,914)	$ (4,016)
Taxable securities	(578)	2,799	2,221	(282)	3,907	3,625
Non-Taxable securities	(269)	(606)	(875)	1,454	107	1,561
Federal funds sold and other	499	2,112	2,611	(26)	341	315
TOTAL INTEREST INCOME	$ (286)	$ 10,033	$ 9,747	$ (956)	$ 2,441	$ 1,485
INTEREST EXPENSE						
Interest-bearing demand deposits	$ 65	$ 5,375	$ 5,440	$ (3)	$ (392)	$ (395)
Savings deposits	(13)	228	215	16	(3)	13
Time deposits	74	3,982	4,056	(493)	(848)	(1,341)
Short-term borrowings	283	4,030	4,313	(40)	977	937
Long-term borrowings	-	586	586	303	259	562
TOTAL INTEREST EXPENSE	$ 407	$ 14,203	$ 14,610	$ (218)	$ (6)	$ (224)
NET INTEREST INCOME	$ (693)	$ (4,170)	$ (4,863)	$ (738)	$ 2,447	$ 1,709

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 some of the Company's market was robust but remained stagnant in other markets. The Company continues to face intense competition with aggressive loan terms for available loans from other financial institutions. However, the Company had positive loan growth for 2023 with loans outstanding increasing year-over-year. A majority of the increase in loans is in the commercial, financial and agricultural segment, with an increase in loans of $37,437, or 8.80%, in 2023. 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 increased by 3.41%, or $3,130 in 2023 and decreased by (6.70%), or $6,602, in 2022, and decreased by (16.21%), or $19,059, in 2021 when compared to the prior years. The increase in 2023 reflects the impact of more steady rate increases as opposed to a large spike in the prior year and the decrease in 2022 and 2021 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 $14,210, or 26.95% in 2023 to $66.941 when compared to the $52,731 at December 31, 2022 and decreased by $19,167, or (26.66%) when compared to 2021. Of the overall increase for 2023, a number of large construction projects were completed during the year and refinanced to other loan types. 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 2023 fiscal year despite the recessionary concerns.

Consumer loans increased by $1,660 or 10.55% in 2023 and increased by $1,781 or 12.77% in 2022, and increased by $201 or 1.46% in 2021, compared to the prior years. The Company believes inflation pressure, supply chain issues and the spend down of consumer savings has caused consumer spending to start to pick up.

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,				
	2023	2022	2021	2020	2019
Commercial, financial and agricultural	$ 462,644	$ 425,207	$ 387,475	$ 472,093	$ 357,781
Real estate - construction	66,941	52,731	71,898	48,831	81,197
Real estate - mortgage	95,053	91,923	98,525	117,584	122,014
Consumer	17,390	15,730	13,949	13,748	16,075
TOTAL LOANS	$ 642,028	$ 585,591	$ 571,847	$ 652,256	$ 577,067

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, 2023

	1 YEAR OR LESS	1 - 5 YEARS	5 - 15 YEARS	AFTER 15 YEARS	Total
Commercial, financial and agricultural	$ 101,917	$ 295,399	$ 42,205	$ 23,123	$ 462,644
Real estate - construction	29,203	35,913	1,825	-	$ 66,941
Real estate - mortgage	15,460	64,274	14,055	1,264.00	$ 95,053
Consumer	7,413	9,261	716	-	$ 17,390
Total loans	$ 153,993	$ 404,847	$ 58,801	$ 24,387	$ 642,028

SENSITIVITY TO CHANGES IN INTEREST RATES

	1 - 5 YEARS	OVER 5 YEARS
Fixed rates	$ 457,762	$ 32,004
Variable rates	101,078	51,184
Total loans	$ 558,840	$ 83,188

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 CREDIT LOSSES AND ASSET QUALITY

The ACL 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 ACL, 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 credit 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 ACL is established through a PCL 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 PCL for each of 2023, 2022 and 2021. The ratio of net loans charged off (recovered) to average loans was (0.03%) in 2023, (0.11%) in 2022 and 0.26% in 2021. Management evaluates the adequacy of the ACL on a monthly basis and makes adjustments to the allowance based on this analysis.

The PCL in 2023 was an expense of $669 compared to $124 in 2022 and $1,409 in 2021. 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 provision for off-balance sheet credit exposure during the year was primarily driven by increased recessionary risk due to inflationary pressures partially offset by a decrease in unfunded loan commitments. 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 higher provision is mainly attributed to higher interest rates on new loans and the current economic climate. At the end of 2023, the total ACL was $6,133, an amount that management believes to be sufficient to cover estimated probable losses in the loan portfolio.

Activity in the ACL is reflected in Table 6 – Analysis of Allowance for Credit 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)

	2023	2022	2021	2020	2019
BALANCE AT BEGINNING OF YEAR	$ 5,264	$ 4,513	$ 4,735	$ 3,755	$ 3,372
CECL Adjustment	$ 635				
LOANS CHARGED-OFF					
Commercial, financial and agricultural	83	65	775	272	176
Real estate - construction	2	-	36	37	-
Real estate - mortgage	20	4	-	304	46
Consumer	148	110	1,327	104	138
TOTAL CHARGE-OFFS	253	179	2,138	717	360
CHARGE-OFFS RECOVERED					
Commercial, financial and agricultural	261	205	67	65	91
Real estate - construction	8	14	9	43	18
Real estate - mortgage	106	75	76	61	14
Consumer	66	512	355	43	47
TOTAL RECOVERIES	441	806	507	212	170
Net loans charged-off	(188)	(627)	1,631	505	190
Additions charged to operating expense	464	124	1,409	1,485	573
BALANCE AT END OF YEAR	$ 6,551	$ 5,264	$ 4,513	$ 4,735	$ 3,755
Loans, net of unearned, at year end	$ 642,028	$ 585,591	$ 571,847	$ 652,256	$ 577,067
Ratio of allowance to loans at year end	1.02%	0.90%	0.79%	0.73%	0.65%
Average loans - net of unearned	$ 588,382	$ 587,034	$ 629,186	$ 622,805	$ 561,483
Ratio of net loans charged-off to average loans	-0.03%	-0.11%	0.26%	0.08%	0.03%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(in thousands)

	AT DECEMBER 31,				
	2023	2022	2021	2020	2019
Commercial, financial and agricultural	$ 3,444	$ 4,275	$ 3,760	$ 3,354	$ 3,672
Real estate - construction	515	478	464	267	192
Real estate - mortgage	2,293	865	794	653	566
Consumer	299	397	246	239	305
Total	$ 6,551	$ 6,015	$ 5,264	$ 4,513	$ 4,735

COMPOSITION OF LOAN PORTFOLIO BY TYPE

	AT DECEMBER 31,				
	2023	2022	2021	2020	2019
Commercial, financial and agricultural	72.06%	72.61%	67.76%	72.38%	62.00%
Real estate - construction	10.43%	9.00%	12.57%	7.49%	14.07%
Real estate - mortgage	14.81%	15.70%	17.23%	18.03%	21.14%
Consumer	2.71%	2.69%	2.44%	2.11%	2.79%
	100.00%	100.00%	100.00%	100.00%	100.00%

Loan balances outstanding, as illustrated in Table 4, increased in 2023 as a result of the increased demand in our high growth markets. All loan segments except commercial, financial and agricultural decreased in 2022 except for a slight increase in consumer loans. The ACL 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, 2023 was 0.19% compared to 0.20% in 2022. OREO decreased in 2023 and in 2022 due to sales of several parcels in both 2023 and 2022 partially offset by foreclosures. The Company also had OREO write-downs of $42 for 2022 and $914 for 2021.

Loans on non-accrual status amounted to $2,576 in 2023 as compared to $2,988 in 2022 and $3,826 in 2021. Interest income forgone on loans classified as non-accrual in 2023 was $431 as compared to $354 in 2022 and $281 in 2021. 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,				
	2023	2022	2021	2020	2019
PRINCIPAL BALANCE					
Non-accrual	$ 2,576	$ 2,988	$ 3,826	$ 8,484	$ 12,026
Accruing loans 90 days or more past due	16	111	154	14	274
Loan modifications	2,000	2,182	213	2,113	2,495
TOTAL NON-PERFORMING LOANS	$ 4,592	$ 5,281	$ 4,193	$ 10,611	$ 14,795
Income on non-accrual loans not recorded	$ 431	$ 354	$ 281	$ 383	$ 555
Non-performing as a percent of loans	0.72%	0.90%	0.73%	1.63%	2.56%
Non-accrual as a percent of loans	0.40%	0.51%	0.67%	1.30%	2.08%
Other real estate owned	$ 1,234	$ 1,179	$ 2,475	$ 3,073	$ 3,552
OREO as a percent of loans	0.19%	0.20%	0.43%	0.47%	0.62%
Allowance as a percent of non-performing loans	142.66%	99.68%	107.63%	44.62%	25.38%
Allowance as a percent of non-accrual loans	254.31%	176.17%	117.96%	55.81%	31.22%

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"). This update to Accounting Standards Codification Topic ("ASC") 326, *Financial Instruments - Credit Losses* ("ASC 326"), significantly changed the way entities recognize impairment on many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the asset's remaining life. FASB describes this impairment recognition model as the current expected credit loss ("CECL") model and believes the CECL model will result in more timely recognition of credit losses since the CECL model incorporates expected credit losses versus incurred credit losses. The balances of impaired loans for the years 2023, 2022 and 2021 were $4,027, $3,277 and $2,334, respectively.

This table details the impaired loans by category as of December 31, 2023, 2022 and 2021.

	AT DECEMBER 31,		
	2023	2022	2021
Commercial, financial and agricultural	$ 1,404	$ 3,088	$ 1,396
Real estate - construction	2,399	-	171
Real estate - mortgage	224	189	767
Total loans	$ 4,027	$ 3,277	$ 2,334

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, 2023, loans totaling $24,451 were included on the Company's watch list compared to $39,451 at December 31, 2022. 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, 2023, the Company classified its securities as AFS or HTM. AFS securities are reported at fair value, with unrealized gains and losses included as a separate component of equity, net of tax. HTM securities are reported at book value. The Company does not hold any securities classified as held for trading purposes.

Table 8 – Securities and Securities Maturity Schedule summarizes the amortized cost of securities from 2021 through 2023 and the maturity distribution at December 31, 2023, by classification.

TABLE 8 – SECURITIES

(in thousands)

	2023	2022	2021
SECURITIES AVAILABLE-FOR-SALE			
U. S. Government Agencies	$ -	$ -	$ 4,969
Mortgage Backed Securities	94,255	107,055	411,729
State, County and Municipal Obligations	118,815	134,906	230,359
Other Securities	500	500	500
TOTAL SECURITIES AVAILABLE-FOR-SALE	$ 213,570	$ 242,461	$ 647,557

	2023	2022	2021
SECURITIES HELD-TO-MATURITY			
U. S. Government Agencies	$ 4,065	$ 4,002	$ -
Mortgage Backed Securities	290,802	309,748	-
State, County and Municipal Obligations	92,932	92,840	-
TOTAL SECURITIES HELD-TO-MATURITY	$ 387,799	$ 406,590	$ -

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								
Mortgage Backed Securities(1)	$ 6,823	4.11%	$ -	0.00%	$ 19,026	2.97%	$ 68,406	2.70%
State, County and Municipal(2)	-	0.00%	2,880	3.03%	5,547	2.70%	110,388	2.15%
Other Securities	500	0.00%	-	0.00%	-	0.00%	-	0.00%
TOTAL AVAILABLE-FOR-SALE	$ 7,323	3.83%	$ 2,880	3.03%	$ 24,573	2.91%	$ 178,794	2.36%
HELD-TO-MATURITY								
U. S. Government Agencies(1)	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ 4,065	3.68%
Mortgage Backed Securities(1)	-	0.00%	-	0.00%	18,726	3.60%	272,076	3.34%
State, County and Municipal(2)	-	0.00%	-	0.00%	-	0.00%	92,932	3.81%
TOTAL HELD-TO-MATURITY	$ -	0.00%	$ -	0.00%	$ 18,726	0.00%	$ 369,073	3.46%

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

(2) Average yields were calculated on tax equivalent basis using a marginal federal income tax rate of 21% and a state tax rate of 5%.

The change in the carrying value of the securities portfolio is due to market value fluctuations resulting from the changing interest rate environment during 2023. This change is not used in the Tier 1 capital calculation.

As detailed in Table 8, the security portfolio decreased $47,561 or (7.33%) in 2023, increased $1,495 or 0.23% in 2022 and decreased $25,669 or (3.81%) in 2021. 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 2023 as a result of customers repositioning their deposits in anticipation of rate increases. Time deposits decreased in 2022 compared to 2021 due to a deposit special the Company issued during the first half of 2021.

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)

	2023		2022		2021	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing	$ 281,820		$ 305,247		$ 289,883	
Interest-bearing demand	520,486	1.22%	486,636	0.19%	487,894	0.27%
Savings	120,300	0.29%	133,739	0.10%	118,063	0.10%
Time deposits	212,655	2.59%	202,315	0.71%	245,886	1.13%
	$ 1,135,261	1.43%	$ 1,127,937	0.30%	$ 1,141,726	0.50%

MATURITY RANGES OF TIME DEPOSITS
OF $250 OR MORE

	AS OF DECEMBER 31, 2023
3 months or less	$ 13,329
3 through 12 months	40,592
1 year to 3 years	3,397
over 3 years	1,908
	$ 59,226

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,		
	2023	2022	2021
Short-term borrowings			
Year-end balance	$ 158,086	$ 127,574	$ 112,760
Weighted average rate	3.58%	1.05%	0.36%
Maximum month-end balance	$ 182,489	$ 161,319	$ 219,876
Year to date average balance	$ 147,496	$ 121,783	$ 135,282
Weighted average rate	3.83%	1.10%	0.30%

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, 2023, the Company had the capacity to borrow up to $179,000 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, 2023 the Company had borrowed $-0- from the FHLB and $-0- in Federal Funds Purchased. At December 31, 2022, the Company had borrowed $-0- from the FHLB and $-0- in Federal Funds Purchased. In 2023, the balances in Securities Sold Under Agreement to Repurchase increased $30,512, or 23.92%, to $158,086 from 2022. In 2022, these balances decreased to $127,574, an increase of $14,814, or 13.14%, from 2021.

	(in thousands) 2023
Less than one year	$ 18,000
One year to three years	-
Over three years	-
Total long-term borrowings	$ 18,000

At the end of 2023, 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, 2023 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 2021 through 2023 and percentage changes between such years.

TABLE 11 - NON-INTEREST INCOME & EXPENSE

(in thousands)

	2023	% CHANGE FROM '22	2022	% CHANGE FROM '21	2021
NON-INTEREST INCOME					
Service charges on deposit accounts	$ 3,788	-2.77%	$ 3,896	11.35%	$ 3,499
Other operating income	4,960	-29.03%	6,989	-19.56%	8,689
TOTAL NON-INTEREST INCOME	$ 8,748	-19.63%	$ 10,885	-10.69%	$ 12,188
NON-INTEREST EXPENSE					
Salaries and employee benefits	$ 18,583	5.29%	$ 17,649	-4.39%	$ 18,460
Occupancy expense, including equipment	7,835	5.72%	7,411	3.87%	7,135
Other operating expense	9,759	7.14%	9,109	-6.60%	9,753
TOTAL NON-INTEREST EXPENSE	$ 36,177	5.88%	$ 34,169	-3.34%	$ 35,348

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 2023 as compared to 2022, non-interest income decreased by ($2,137), or (19.63%). The decrease in other operating income mainly attributed to the loss on securities during the year in addition to decreases in service charges on deposit accounts, primarily interchange fees and overdraft fees.

During 2022 as compared to 2021, non-interest income decreased by ($1,303), or (10.70%). The decrease in other operating income mainly attributed to decreases in net gains on sales of securities, partially offset by an increase in service charges on deposit accounts, primarily interchange fees and overdraft fees.

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 2023 as compared to 2022, non-interest expense increased by $2,008, or 5.88%, to $36,177. Included in this increase was an increase in salaries and benefits in the amount of $934, or 5.29% and other expense in the amount of $650 or 7.14%. This increase is primarily driven by the additional overhead acquired during the year.

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 2022 as compared to 2021, non-interest expense decreased by ($1,179), or (3.34%), to $34,169. Included in this increase was a decrease in salaries and benefits in the amount of ($811), or (4.39%) and other expense in the amount of ($645) or (6.61%). Write-downs on OREO of $42, a decrease of $872 from 2021 of $914 makes up a majority of the increase in other expense. Occupancy expense increased in 2022 compared to 2021 for $276, or 3.87% to $7,411 from $7,135.

In 2023, the Company's efficiency ratio was 93.95%, compared to 78.24% in 2022 and 78.29% in 2021. 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 $28,008 is considered realizable and no valuation allowance is considered necessary.

The Company's effective tax rate was (4.16%), 16.36% and 16.03% in 2023, 2022 and 2021, 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 2023, 2022 and 2021, 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 borrowings from the FHLB. In both 2023 and 2022, 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.

When the Company has more funds than it needs for its short-term liquidity needs, the Company increases its investment portfolio, increases the balances in interest bearing due from bank accounts or sells federal funds. It is management's policy to maintain an adequate portion of its portfolio of assets and liabilities on a short-term basis to ensure rate flexibility and to meet loan funding and liquidity needs. When deposits decline or do not grow sufficiently to fund loan demand, management will seek funding either through federal funds purchased or advances from the FHLB.

The Company had $-0- of FHLB advances outstanding at year end of 2023 and 2022. 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 primary sources of liquidity on the asset side of the balance sheet are interest bearing deposits with other banks and securities classified as AFS. $177,787 of the total investment securities of $565,594 is classified in the AFS category at December 31, 2023, 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 monthly. At December 31, 2023, 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 2023 and 2022.

TABLE 12 – FUNDING USES AND SOURCES

(in thousands)

	2023			2022		
	Average Balance	Increase/(decrease) Amount	Percent	Average Balance	Increase/(decrease) Amount	Percent
FUNDING USES						
Loans, net of unearned income	$ 587,785	$ 1,350	0.23%	$ 586,435	$ (42,183)	-7.19%
Taxable securities	432,029	(33,357)	-7.17%	465,386	(31,560)	-6.78%
Tax-exempt securities	199,661	(11,234)	-5.33%	210,895	61,918	29.36%
Federal funds sold and other	55,366	31,792	134.86%	23,574	(20,877)	-88.56%
TOTAL USES	$ 1,274,841	$ (11,449)	-0.89%	$ 1,286,290	(32,702)	-2.54%
FUNDING SOURCES						
Noninterest-bearing deposits	$ 281,820	$ (23,427)	-7.67%	$ 305,247	15,364	5.03%
Interest-bearing demand and savings deposits	640,786	20,411	3.29%	620,375	14,418	2.32%
Time deposits	212,655	10,340	5.11%	202,315	(43,571)	-21.54%
Short-term borrowings	147,495	25,712	21.11%	121,783	111,466	91.53%
Long-term borrowings	18,000	-	0.00%	18,000	18,000	100.00%
TOTAL SOURCES	$ 1,300,756	$ 33,036	2.61%	$ 1,267,720	$ 115,677	9.12%

The Company's liquidity depends substantially on the ability of the Bank to transfer funds to the Company in the form of dividends. 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. 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

As a small bank holding company, the Company is not subject to reporting regulatory capital. However, the Bank is 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 Bank's financial statements and ultimately the Company. 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 2023 as compared to 2022, total risk-based capital decreased due to decreased earnings.

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, 2023, as noted below in Table 13 - Capital Ratios. To be classified as well-capitalized, the Bank must maintain the ratios described above.

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

	At December 31,		
The Bank	2023	2022	2021
Tier 1 capital			
Shareholders' equity	$ 60,061	$ 56,374	$ 123,140
Less: Intangibles	(13,256)	(13,340)	(13,420)
Less: DTA related to NOLs	-	-	(94)
Add/less: Unrealized loss/(gain) on securities	77,027	83,071	11,795
TOTAL TIER 1 CAPITAL	$ 123,832	$ 126,105	$ 121,421
Total capital			
Tier 1 capital	$ 123,832	$ 126,105	$ 121,421
Allowable allowance for credit losses	6,695	5,264	4,513
TOTAL CAPITAL	$ 130,527	$ 131,369	$ 125,934
RISK WEIGHTED ASSETS	$ 898,698	$ 824,382	$ 791,170
AVERAGE ASSETS (FOURTH QUARTER)	$ 1,433,061	$ 1,367,042	$ 1,335,515
TIER 1 LEVERAGE RATIO	8.64%	9.22%	9.09%
COMMON EQUITY TIER 1 CAPITAL RATIO	13.78%	15.30%	15.35%
TIER 1 RISK-BASED CAPITAL RATIO	13.78%	15.30%	15.35%
TOTAL RISK-BASED CAPITAL RATIO	14.52%	15.94%	15.92%

Citizens Holding Company	2023	At December 31, 2022	2021
Tier 1 capital			
Shareholders' equity	$ 42,773	$ 39,025	$ 105,900
Less: Intangibles	(13,256)	(13,340)	(13,420)
Less: DTA related to NOLs	-	-	(94)
Add/less: Unrealized loss/(gain) on securities	77,027	83,071	11,795
TOTAL TIER 1 CAPITAL	$ 106,544	$ 108,756	$ 104,181
Total capital			
Tier 1 capital	$ 106,544	$ 108,756	$ 104,181
Allowable allowance for credit losses	6,695	5,264	4,513
TOTAL CAPITAL	$ 113,239	$ 114,020	$ 108,694
RISK WEIGHTED ASSETS	$ 891,916	$ 824,382	$ 791,529
AVERAGE ASSETS (FOURTH QUARTER)	$ 1,433,608	$ 1,367,042	$ 1,335,780
TIER 1 LEVERAGE RATIO	7.43%	7.96%	7.80%
COMMON EQUITY TIER 1 CAPITAL RATIO	11.95%	13.19%	13.16%
TIER 1 RISK-BASED CAPITAL RATIO	11.95%	13.19%	13.16%
TOTAL RISK-BASED CAPITAL RATIO	12.70%	13.83%	13.73%

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 a reasonable dividend payout ratio, which is 218.02%, 56% and 71% in years ending 2023, 2022, 2021, respectively. The Company does have the secured line of credit commitment due in 2024 that will require the Company to make strategic decisions in regards to refinancing the line of credit or raising additional capital to pay off the debt. The Company is currently weighing a variety of options in regards to the upcoming commitment.

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 15, “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 10. The only other significant obligations, other than obligations under deposit contracts and short-term borrowings, 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, 2023 ($ in thousands):

	Interest Sensitive Within	
	90 days	One year
Total rate sensitive assets	$ 210,852	$ 177,187
Total rate sensitive liabilities	473,917	145,011
Net gap	$ (263,065)	$ 32,176

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. Management believes the Company is well positioned from an interest rate risk perspective for downward rate movements, but will continue to focus on the risk of higher rates for longer.

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 the majority of 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, 2023 and December 31, 2022.

TABLE 14 - INTEREST RATE SENSITIVITY
AS OF DECEMBER 31, 2023
(in thousands)

	2024	2025	2026	2027	2028	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	$ 120,456	$ 92,873	$ 73,558	$ 85,585	$ 85,290	$ 32,004	$ 489,766	$ 454,011
Average Int Rate	7.08%	8.07%	7.61%	5.36%	7.63%	6.61%	7.11%	
Floating Rate	$ 33,538	$ 7,807	$ 6,733	$ 28,156	$ 24,845	$ 51,183	$ 152,262	$ 152,262
Average Int Rate	5.44%	5.33%	6.15%	7.85%	8.18%	8.54%	7.40%	
Investment securities								
Fixed Rate	$ 6,767	$ 1,468	$ 821	$ 135	$ 374	$ 556,029	$ 565,594	$ 533,213
Average Int Rate	4.11%	3.84%	3.15%	2.63%	4.63%	2.96%	2.98%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate	$ 79,923						$ 79,923	$ 79,923
Average Int Rate	5.38%						5.38%	
Interest-bearing deposits								
Fixed Rate	$ 747,533	$ 16,844	$ 2,697	$ 2,901	$ 4,247		$ 774,222	$ 774,222
Average Int Rate	0.29%	0.81%	0.80%	0.86%	1.58%		0.31%	
Floating Rate	$ 131,327						$ 131,327	$ 131,327
Average Int Rate	4.73%						4.73%	
Other int-bearing liabilities								
Fixed Rate			$ 14,533	$ 10,411			$ 24,944	$ 28,230
Average Int Rate			4.80%	4.68%			4.75%	
Floating Rate	$ 158,086						$ 158,086	$ 158,086
Average Int Rate	3.76%						3.76%	

AS OF DECEMBER 31, 2022
(in thousands)

	2023	2024	2025	2026	2027	Thereafter	Carrying Value	Fair Value
Loans								
Fixed Rate	$ 102,366	$ 64,629	$ 94,071	$ 78,136	$ 86,960	$ 55,169	$ 481,330	$ 436,912
Average Int Rate	4.82%	5.15%	4.49%	4.34%	4.40%	4.29%	0.00%	
Floating Rate	$ 6,308	$ 28,622	$ 1,430	$ 7,637	$ 6,905	$ 53,358	$ 104,261	$ 104,261
Average Int Rate	6.82%	6.84%	6.42%	7.23%	5.95%	5.32%	0.00%	
Investment securities								
Fixed Rate	$ 657	$ 6,893	2,180	$ 832	$ 140	$ 638,284	$ 648,987	$ 576,614
Average Int Rate	1.82%	4.12%	0.04	3.61%	2.75%	3.36%	0.00%	
Floating Rate								
Average Int Rate								
Other earning assets								
Fixed Rate								
Average Int Rate								
Floating Rate	$ 1,646						$ 1,646	$ 1,646
Average Int Rate	1.57%						1.57%	
Interest-bearing deposits								
Fixed Rate	$ 756,606	$ 52,258	$ 12,101	$ 3,340	$ 2,985		$ 827,290	$ 827,269
Average Int Rate	0.29%	1.96%	0.43%	0.49%	0.63%		0.00%	
Floating Rate								
Average Int Rate								
Other int-bearing liabilities								
Fixed Rate								
Average Int Rate								
Floating Rate	$ 145,574						$ 145,574	$ 145,574
Average Int Rate	1.61%						1.61%	

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, 2023. 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, 2023
(in thousands, except percentage amounts)

	1 - 90 Days	91 - 365 Days	1 - 5 Years	Over 5 years	Total
INTEREST EARNING ASSETS					
Loans	$ 118,666	$ 141,058	$ 369,860	$ 11,731	$ 641,315
Investment securities	12,263	36,129	136,693	484,386	669,471
Interest bearing deposits with other banks	79,923	-	-	-	79,923
TOTAL INTEREST BEARING ASSETS	$ 210,852	$ 177,187	$ 506,553	$ 496,117	$ 1,390,709
INTEREST BEARING LIABILITIES					
Interest bearing demand deposits	$ 189,908	$ -	$ 129,325	$ 161,657	$ 480,890
Savings and Money Market deposits	57,930	-	91,967	27,695	177,592
Time deposits	49,993	145,011	51,837	102	246,943
Short term borrowings	158,086	-	-	-	158,086
Long term borrowings	18,000	-	-	-	18,000
TOTAL INTEREST BEARING LIABILITIES	$ 473,917	$ 145,011	$ 273,129	$ 189,454	$ 1,081,511
Rate sensitive gap	$ (263,065)	$ 32,176	$ 233,424	$ 306,663	$ 309,198
Rate sensitive cumulative gap	(263,065)	(230,889)	2,535	309,198	-
Cumulative gap as a percentage of total earning assets	-18.92%	-16.60%	0.18%	22.23%	

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, 2022. This negative gap position was mainly due to: (1) a significant amount of non-maturity deposits classified within that period and (2) approximately 20.23% 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 a liability sensitive position when evaluating the maturities of interest-bearing items. Thus, an increase in the interest rate environment would have a negative impact to earnings, while a decrease in interest rates would have the opposite effect on the Company's earnings. At the current stage of the economy with interest rates having increased quicker than any time in the past few decades and inflation pressure starting to subside, the Company foresees interest rates will remain fairly flat in the coming year. During 2023, the Company raised interest bearing asset rates but was unable to hold interest bearing liabilities low. However, the Company expects to see margin expansion as deposit costs will likely lower in 2024.

The COVID-19 pandemic during 2020 and 2021 required some quick actions by the FRB to attempt to limit the recessionary impact of the pandemic. As a result of the actions taken during those years, the FRB had to reverse course in 2022 and 2023 in a significant way to reduce the money supply in the economy and take a more restrictive stance. Market interest rates have increased 100 bps during 2023, which is the fastest rate increases on a percentage basis in decades. At the beginning of 2023, the ten-year Treasury yield was 3.88%. As of December 31, 2023, the ten-year Treasury yield was 3.86%. 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 assets while holding deposit costs down for most of 2022. The Company is focused on positioning the balance sheet to become more rate neutral to interest rates due to the expectation of relatively flat interest rates in the coming year as the data is showing the FRB's aggressive actions have helped reduce inflation.

Market Price and Dividend Information

MARKET PRICE INFORMATION

The Company's common stock trades on the OTCQX Best Market ("OTCQX") under the symbol "CIZN". On February 28, 2024, the common stock's closing price on OTCQX was $7.78.

On February 28, 2024, shares of the Company's common stock were held of record by approximately 456 shareholders.

DIVIDENDS

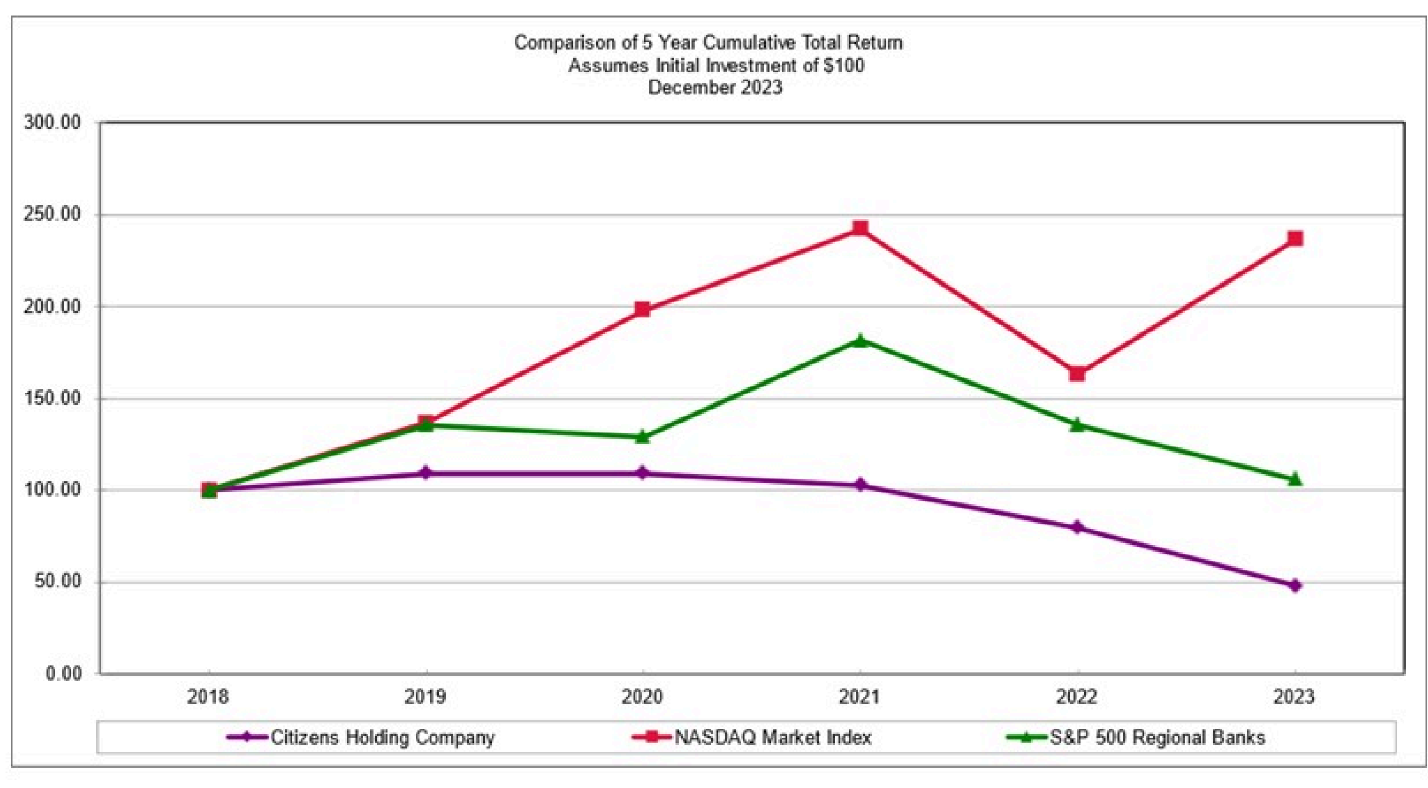
Dividends totaled $0.72 and $0.96 per share for 2023 and 2022.

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, 2023. 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, 2018 - December 31, 2023



	2018	2019	2020	2021	2022	2023
Citizens Holding Company	100.00	109.16	109.16	102.82	79.62	48.03
NASDAQ Market Index	100.00	136.69	198.10	242.03	163.28	236.17
S&P 500 Regional Banks	100.00	135.42	129.28	181.68	135.32	106.07

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

Stacy M. Brantley
President and CEO

Phillip R. Branch
Senior Vice President, CFO

Mark Taylor
Senior Vice President, COO, Trust Officer

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

Ledale Reynolds
Senior Vice President and CIO

Joshua Sullivan
Senior Vice President, Senior Credit 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

Ashley Peebles
Vice President, Director of Deposit Services

Jamie Shotts
Vice President, Appraisal Review Officer

Sommer Vick
Vice President, Controller

Mitch Peden
Vice President, Information Services Manager

Scott Lewis
Vice President, Information Secuirty Officer

Sam Mars
Vice President, Regional Commercial Banker

Shon Kirkland
Assistant Vice President, Security Officer, Facilities Manager

Charles Wilkerson
Assistant Vice President, Loan Operations Officer

Grant Comans
Assistant Vice President, Branch Manager

Pam Lewis
Assistant Vice President, Collections Manager

Sandra Curties
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
Assistant Vice President, IT Project Manager

Stacy Chisolm
IT Service Desk Manager

Debra Yates
Executive Assistant to the President/CEO

Shirley McDaniel
Loan Processing Officer

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
Assistant Vice President, Branch Operations Officer

Decatur Branch

Susan Brown
Assistant Vice President, 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
Market President, Loan Officer

Lynn Graham
Assistant Vice President, Branch Operations Officer

Collinsville Branch

Mike Shelby
Vice President, Branch Manager

Starkville Branch

Lee Burrell
Vice President, Regional Commercial Lender

Rhonda Edmonson
Assistant Vice President, Branch Manager

Flowood Branch

George Gammon III
Regional President, North-West Mississippi

Warner Cannada
Vice President, Regional Commercial Banker

Monica L. Hammack
Assistant Vice President, Branch Manager

Hattiesburg Branch

Chad Hill
Vice President, Branch Manager

Ridgeland branch

Daniel Webb
Assistant Vice President, Loan Officer

Tammy McAlpin
Commercial Loan, Portfolio Manager

Biloxi Cedar Lake Branch

Travis Moore
Vice President, Regional Commercial Lender

Katie Hancock
Vice President, Branch Manager

Tabbetha Calvert
Vice President, BSA Officer

Oxford Branch

Corey Addy
Oxford City President

Marion Boyd
Senior Vice President, Chief Business Development Officer

Charles Larry Veasey
Vice President, Regional Commercial Lender

Angela Ducote
Assistant Vice President, Consumer Banker

Rose Alderson
Branch Operations and Retail Banking Officer

Pascagoula Branch

Greg Cronin
Regional President, Coastal-South Mississippi

Ford Kinsey
Senior Vice President, Chief Credit Officer

Amber Thomas
Vice President, Commercial Banker

Theresa Jenkins
Assistant Vice President, Branch Manager

Ocean Springs Branch

Reagan Bridley
Vice President, Commercial Banker

Sharon Wetzel
Vice President, Information Technology Officer

Melissa Cooper
Assistant Vice President

Mortgage Loan Division

Tom Graham
Vice President, Mortage Loan Officer, Gulfport

Charlene DeWeese
Assistant Vice President, Mortgage Loan Officer, Philadelphia Annex

Tammy Warren
Assistant Vice President, Mortgage Loan Officer, Biloxi Cedar Lake Branch

BOARD OF DIRECTORS

Stacy M. Brantley
President & Chief Executive Officer
Citizens Holding Company and The Citizens Bank

Donald L. Kilgore
General Counsel
to Tribal Chief Cyrus Ben

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
Retired 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

Jason Voyles
President & Chief Executive Officer
Spectrum Capital, LLC

CITIZENS HOLDING COMPANY OFFICERS

Herbert A. King
Chairman

Stacy M. Brantley
President and Chief Executive Officer

Mark Taylor
Secretary

Phillip R. Branch
Treasurer and Chief Financial Officer

BANKING LOCATIONS

Philadelphia Main Office
521 Main Street
Philadelphia, MS 39350
601.656.4692

Westside Branch
912 West Beacon Street
Philadelphia, MS 39350
601.656.4692

Ridgeland Branch
320 Highway 51 North
Ridgeland, MS 39157
601.519.4020

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 Popps 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

Ocean Springs Branch
2702 Bienville Blvd
Ocean Springs, MS 39564
228.875.3933

Pascagoula Branch
1519 Jackson Ave
Pascagoula, MS 39567

Phone Teller
1.800.397.0344

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 23, 2024, 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. Box 209
Philadelphia, Mississippi 39350

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

Exhibit 21 – Subsidiaries of the Registrant

The following is a list of subsidiaries of the Company:

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Stacy M. Brantley, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: March 29, 2024

By: /s/ Stacy M. Brantley
Stacy M. Brantley
Citizens Holding Company

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Phillip R Branch, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: March 29, 2024

By: /s/ Phillip R. Branch
Phillip R. Branch
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the "Company") for the period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stacy M. Brantley, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2024

By: /s/ Stacy M. Brantley
Stacy M. Brantley
Chief Executive Officer

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of Citizens Holding Company (the “Company”) for the period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Phillip R. Branch, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2024

By: /s/ Phillip R. Branch
Phillip R. Branch
Chief Financial Officer