

CITIZENS HOLDING CO /MS/

Form 10-K

March 15, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2012**

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)

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

39350  
 (Zip Code)

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

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

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

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

None

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

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

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

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

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

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

Large accelerated filer  Accelerated filer   
 Non-accelerated filer  Smaller Reporting Company

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

As of June 30, 2012, the aggregate market value of the registrant's common stock, \$.20 par value, held by non-affiliates of the registrant was \$74,085,446 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, 2012).

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

Class	Outstanding at March 8, 2013
Common stock, \$.20 par value	4,861,614 Shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Citizens Holding Company's Annual Report to Shareholders for the fiscal year ended December 31, 2012 are incorporated by reference into Part II of this Annual Report on Form 10-K.

Portions of Citizens Holding Company's definitive proxy statement with respect to its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

In addition to historical information, this report contains statements that constitute forward-looking statements 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:

the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Company operates;

changes in the legislative and regulatory environment that negatively impact the Company and the Bank through increased operating expenses;

increased competition from other financial institutions;

the impact of technological advances;

expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions;

changes in asset quality and loan demand;

expectations about overall economic strength and the performance of the economy in the Company's market area; and

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

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

Except as otherwise indicated herein, the information presented in this Annual Report on Form 10-K is as of March 13, 2013.

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ITEM 1. BUSINESS.

**BACKGROUND**

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

The Bank was opened on February 8, 1908 as The First National Bank of Philadelphia. In 1917, the Bank surrendered its national charter and obtained a state charter, at which time the name of the Bank was changed to The Citizens Bank of Philadelphia, Mississippi. At December 31, 2012, the Bank was the largest bank headquartered in Neshoba County, Mississippi, with total assets of \$880,513,710 and total deposits of \$644,206,606. For more information regarding the assets, revenue and profits of the Company, refer to the Consolidated Financial Statements of the Company contained in Item 8, Financial Statements and Supplementary Data.

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

**OPERATIONS**

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

Revenues from the Company's lending activities constitute the largest component of the Company's operating revenues. Revenue from loan interest and fees made up 55.6% of gross revenues in 2012, 58.0% in 2011 and 62.2% in 2010. Such lending activities include commercial, real estate, installment (direct and indirect) and credit card loans. The Company's primary lending area is East Central Mississippi, specifically Neshoba, Newton, Leake, Lamar, Forrest, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Winston and Kemper counties and contiguous counties. During the fourth quarter of 2008, the Company entered the southern Mississippi market with the opening of a branch office in Hattiesburg, Mississippi, which is located in Lamar County. In 2009, the Company opened a Loan Production Office in Biloxi, Mississippi to serve the Mississippi Gulf Coast. In 2011, the Company opened a branch in Flowood, Mississippi. On a very limited basis, the Company extends out-of-area credit only to borrowers who are considered to be low risk. The Company is not dependent upon any single customer or small group of customers, and it has no foreign operations.

The Company's twelve county market is mainly rural, with Hattiesburg, population 50,233, and Meridian, population 38,314, being the largest cities. Agriculture and some light industry comprise a significant portion of the economy of this area. The largest employer in the Company's service area is the Mississippi Band of Choctaw Indians. Its schools, manufacturing plants and

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main source of income, The Pearl River Resort (the Resort ), generate a significant number of jobs in the area. The Resort and its related services employ approximately 2,400 people within the Company s market.

The Company has historically made, and intends to continue to make, most types of real estate loans, including, but not limited to, single and multi-family housing, farm, residential and commercial construction and commercial real estate loans. At December 31, 2012, approximately 79.3% of the Company s loan portfolio has been attributed to real estate lending. Another 12.7% of the Company s loan portfolio is comprised of commercial, industrial and agricultural production loans. Consumer loans make up the remaining 8.0% of the total loan portfolio.

The Company s loan personnel have the authority to extend credit under guidelines established and approved by the Company s Board of Directors. Any aggregate credit that exceeds the authority of the loan officer is forwarded to the Board s loan committee for approval. The loan committee is composed of certain independent Company directors. All aggregate credits that exceed the loan committee s lending authority are presented to the 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 policies, but also provides valuable insight through the communication and pooling of knowledge, judgment and experience of its members.

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

In addition to lending services, the Company also offers discount brokerage services through a networking agreement with First Tennessee Bank.

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

**EXECUTIVE OFFICERS OF THE COMPANY**

Greg L. McKee, 51, has been employed by the Bank since 1984. He was named President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank in January 2003. He has served as President of the Bank since January 2002 and served as Chief Operating Officer of the Bank from January 2002 until December 31, 2002. He has also been a member of the Board of Directors of both the Company and the Bank since 2001. Mr. McKee served as Executive Vice-President of the Bank from 2001 to 2002, Senior Vice-President of the Bank from 2000 to 2001, Vice-President of the Bank from 1992 to 2000, Assistant Vice-President of the Bank from 1989 to 1992, and Assistant Cashier of the Bank from 1984 to 1989.

Robert T. Smith, 61, has been employed by the Bank since 1986. He has served as Senior Vice-President and Chief Financial Officer of the Bank since January 2001. Prior to January 2001, Mr. Smith held the title of Vice-President and Controller of the Bank from 1987 until 2001 and

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

## EMPLOYEES

The Company has no employees other than three Bank officers who provide services to the Company. These officers receive no compensation from the Company for their services to it as their entire salary is paid by the Bank. At December 31, 2012, the Bank employed 232 full-time employees and 35 part-time employees. The Bank is not a party to any collective bargaining agreements, and employee relations are considered to be good.

## SUPERVISION AND REGULATION

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

### *General.*

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) was signed into law on July 21, 2010. The Dodd-Frank Act affects financial institutions in numerous ways, including the creation of a new Financial Stability Oversight Council responsible for monitoring and managing systemic risk, granting additional authority to the FRB to regulate certain types of nonbank financial companies, granting new authority to the FDIC as liquidator and receiver, abolishing the Office of Thrift Supervision, changing the manner in which insurance deposit assessments are made, requiring the regulators to modify capital standards, establishing a new Bureau of Consumer Financial Protection to regulate compliance with consumer laws and regulations, cap interchange fees which banks charge merchants for debit card transactions, and imposing new requirements on mortgage lenders. There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. It is anticipated that these new regulations will increase Citizen s compliance costs over time, and could have unforeseen consequences as the new legislation is implemented over time.



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*Capital Standards.*

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

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Since December 31, 1992, the federal banking agencies have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items of 4%. At December 31, 2012, the Company's ratio of qualifying total capital to risk-adjusted assets and off-balance sheet items was 18.22%, and its ratio of Tier 1 capital to risk-adjusted assets and off-balance sheet items was 16.96%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets is 4%. The Company's leverage capital ratio at December 31, 2012 was 9.58%.

The Dodd-Frank Act requires the FRB, the OCC and the FDIC to adopt regulations imposing a continuing floor on the risk based capital requirements. In December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

On June 7, 2012, the FRB, the FDIC and the OCC published a set of three regulatory proposals applicable to all depository institutions, bank holding companies with consolidated assets of \$500 million or more, and thrift holding companies. The proposed rules would revise the federal banking agencies' current minimum risk-based and leverage capital ratio requirements, among other ways, to introduce new calculation methods for the standardized risk-based denominator; adopt a minimum common equity risk-based capital requirement and regulatory capital buffers above the minimum risk-based capital requirements; and more generally restructure the agencies' capital rules into a harmonized, integrated regulatory framework.

Management believes that, as of December 31, 2012, the Company and the Bank would meet all capital adequacy requirements under Basel III and the banking agencies' proposals on a fully phased-in basis if such requirements were currently effective. The regulations ultimately applicable to financial institutions may be substantially different from the Basel III final framework as published in December 2012 and the proposed rules issued in June 2012. Management will continue to monitor these and any future proposals submitted by the Company's and Bank's regulators.

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### *Prompt Corrective Action and Other Enforcement Mechanisms.*

The Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ) requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including, but not limited to, those that fall below one or more of the prescribed minimum capital ratios. The law requires each federal banking agency to promulgate regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The Company and 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, 2012, the maximum amount available for transfer from the Bank to the Company in the form of a dividend was \$66,450,853, or 76.5% 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, 2012, the maximum amount available for transfer from the Bank in the form of loans was \$8,688,577, or 10% of the Bank s consolidated net assets. The Bank does not have any outstanding loans with the Company.

### *FDIC Insurance Assessments.*

The FDIC maintains the Deposit Insurance Fund ( DIF ) by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the DIF. The Dodd-Frank Act permanently raised the FDIC insurance coverage limit per depositor to \$250,000. In 2009, the FDIC increased the amount assessed from financial institutions

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by increasing its risk-based deposit insurance assessment scale. The assessment scale for 2010 ranged from seven basis points of assessable deposits for the strongest institutions to 77.5 basis points for the weakest. In 2009, the FDIC approved a rule that required insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. An insured institution's risk-based deposit insurance assessments will continue to be calculated on a quarterly basis, but will be paid from the amount the institution prepaid until the later of the date that amount is exhausted or June 30, 2013, at which point any remaining funds would be returned to the insured institution. Pursuant to the requirements of the Dodd-Frank Act, the FDIC has adopted a new assessment system commencing in April 2011, which will create a new rate grid. In the new grid, base rates will range from 5 to 35 basis points annually, and fully adjusted rates will range from 2.5 to 45 basis points annually.

### *Other BHC Act Provisions.*

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

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

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nonbanking financial activities, such as underwriting and selling insurance, providing financial or investment advice, and dealing and making markets in securities and merchant banking. In order to qualify as a financial holding company, the Company must declare to the FRB its intention to become a financial holding company and certify that the Bank meets the capitalization management requirements and that it has at least a satisfactory rating under the Community Reinvestment Act of 1997, as amended (the CRA). To date, we have not elected to become a financial holding company.

### *Interstate Banking and Branching.*

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

### *Community Reinvestment Act.*

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

The FDIC examined the Bank on August 21, 2007 and again most recently on September 14, 2010 for its performance under the CRA. The Bank was rated Satisfactory during all of these examinations. No discriminatory practices or illegal discouragement of applications were found.

### *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. 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

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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 or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

### *Impact of Monetary Policies.*

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

## COMPETITION

The banking business is highly competitive. The Company's market consists principally of Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Winston and Kemper counties in Mississippi. During the fourth quarter of 2008, the Company entered the southern Mississippi market with the opening of a branch office in Hattiesburg, Mississippi, which is located in Lamar County, and in 2009 opened a loan production office in Biloxi, Mississippi. During the fourth quarter of 2011, the Company opened a branch in Flowood, Mississippi. The Company competes with other financial institutions in these counties and in surrounding counties in Mississippi in obtaining deposits 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 many times greater than those of the Company. In addition, new financial intermediaries, such as money-market mutual funds and large retailers, are not subject to the same regulations and laws that govern the operation of traditional depository institutions. The Company believes it benefits from a good reputation in the community and from the significant length of time it has provided needed banking services to its customers. Also, as a locally owned financial institution, the Company believes it is able to respond to the needs of the community with services tailored to the particular demands of its customers. Furthermore, as a local institution, the Company believes it can provide such services faster than a larger institution not based in the Company's market area.

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

Currently, there are approximately thirty different financial institutions in the Company's market competing for the same customer base. As of June 30, 2012, the Company's market share in its market area was approximately 8.6%. The Company competes in its market for loan and deposit products, along with many of the other services required by today's banking customer, on the basis of availability, quality and pricing. The Company believes it is able to compete favorably in its markets, in terms of both the rates the Company offers and the level of service that the Company provides to its customers.

## AVAILABILITY OF INFORMATION

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

## ITEM 1A. RISK FACTORS.

In addition to the other information contained in or incorporated by reference into this Annual Report on Form 10-K 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, financial condition or results of operations of the Company. 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.*

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

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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.

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. Due to concerns regarding the federal debt ceiling, one credit rating agency has downgraded the credit rating of the federal government, and others may as well, which could result in increased interest rates generally. 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, *Qualitative and Quantitative Disclosures about Market Risk*.

*The Company is subject to lending risk.*

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

As of December 31, 2012, approximately 60.8% of the Company's loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

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*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.

*Bank holding companies depend on the accuracy and completeness of information about customers and counterparties.*

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

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

A significant portion of the loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain



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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 our financial condition and results of operations.

*The Company is subject to risk from adverse economic conditions.*

In 2012, the economic downturn that began in 2007 continued to adversely affect our business. Although the economic conditions did not create new types of risks, the Company believes it is useful to highlight some of the key events to illustrate how events beyond its control can adversely affect the Company.

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

residential housing values in the United States have stagnated or fallen, and in some highly-populated markets values have fallen significantly;

the volume of residential housing transactions also has stagnated or fallen, and in some markets volume has fallen significantly;

investor demand for mortgage-backed securities fluctuated suddenly and sharply, and for some categories of mortgages disappeared almost entirely;

except for conforming loans, which are loan products conforming to standards of certain government sponsored entities, rates for some types of home mortgage products have risen sharply and some mortgage products, with new and more restrictive credit criteria, have become difficult for borrowers to obtain even at high interest rates, making it difficult or impossible for some borrowers to refinance an existing mortgage;

many mortgage borrowers in recent years have obtained adjustable-rate products, and as many have adjusted to higher rates, and therefore higher payments, defaults on these types of loans have risen significantly;

mortgage-related defaults, foreclosures, and personal bankruptcies have risen and it is likely that they will continue at historically high levels in the near future;

the United States Congress and other governmental bodies have adopted the Dodd-Frank Act, which has provisions that increase the regulatory burdens and legal risks on mortgage lenders and servicers; and

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the Federal Reserve has kept short-term interest rates at very low levels, to help ameliorate the impacts of the disruptions in housing and the mortgage industry, which has kept the in the prime lending rates charged by most United States banks very low. Some of the significant actual and potential impacts of those events on one or more of the Company's businesses include:

pressures on our liquidity in the mortgage business as investor demand shrank and the securitization markets diminished or, for some products, disappeared;

significant reduction in our ability to create gains on sale of mortgage loans we originate;

significant reduction in mortgage origination volume and fees;

significant increase in delinquencies in some loan products and markets which are related to mortgages and housing;

significant increase in loan loss provision for loans secured by, or directly related to, mortgages and the housing industry;

significant increase in costs of servicing mortgages due to increased credit remediation and loss mitigation activity, as well as increased collection and foreclosure activity;

the possibility that continued low interest rates will compress our net interest margin; and

the possibility that, in 2013, adjustable rate HELOC loans that are tied to low prime rates could be drawn more fully and could be pre-paid less often so that, in conjunction with falling housing values, the ratio of HELOC loan balances to current actual values may weaken which could, in turn, translate into higher loan losses and higher provisioning for future losses within the HELOC portfolio.

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

The capital and credit markets have been experiencing volatility and disruption during the last four years. Despite signs of improvement in the U.S. economy, the economic recovery continues to progress slowly and uncertainly. Consumer confidence remains low, unemployment remains high at 7.8% for February 2013, and the housing market remains an important downside risk, with prices expected to remain low through much of 2013. Given the concerns about the U.S. economy, employers have continued to approach hiring with caution, and as a result, unemployment is expected to be, at best, only slightly lower in 2013. Furthermore, record levels of monetary and fiscal stimulus since 2010 have failed to produce the expected level of economic growth. The Company does not assume that the difficult conditions in the economy and in the financial markets will improve significantly in the near future. The concern now exists that the future of the recovery is at risk because the economic backdrop is uncertain and unstable. Monetary and fiscal policy measures of the federal government may be insufficient to strengthen the recovery and restore

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stability to the financial markets. If efforts to revive the economy fail, the U.S. could face prolonged economic uncertainty, and perhaps a double dip recession or deflation, or both. A further weakened economy could affect the Company in a variety of substantial and unpredictable ways, including affecting its borrowers' ability to meet their repayment obligations. It is difficult to predict the extent to which these challenging economic conditions will persist, as well as the possibility that signs of a nascent recovery will instead shift to the potential for further decline. If the economy does weaken in the future, it is uncertain how the Company's business would be affected and whether the Company would be able successfully to mitigate any such effects on its business. Accordingly, these factors in the U.S. economy could have a material adverse effect on the Company's financial condition and results of operations.

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

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

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

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

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

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

The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.

The ability to expand the Company's market position.

The scope, relevance and pricing of products and services offered to meet customer needs and demands.

The rate at which the Company introduces new products and services relative to its competitors.

Customer satisfaction with our level of service.

Industry and general economic trends.

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

*The Company is subject to extensive government regulation and supervision.*

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

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

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

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

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

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

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

A major portion of the Bank's net income comes from its interest rate spread, which is the difference between the interest rates paid by the Bank on amounts used to fund assets and the interest rates and fees the Bank receives on its interest-earning assets. The Bank's interest-earning assets include outstanding loans extended to its customers and securities held in its investment portfolio. The Bank funds assets using deposits and other borrowings. The Company's goal has been to maintain non-interest-bearing deposits in the range of 15% to 30% of total deposits, and the Bank currently maintains approximately 18.7% of deposits as non-interest bearing.

On July 14, 2011, the Federal Reserve issued final rules to repeal Regulation Q, which had prohibited the payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System. The final rules implement Section 627 of the Dodd-Frank Act, which repealed Section 19(i) of the Federal Reserve Act in its entirety effective July 21, 2011. As a result, banks and thrifts are now permitted to offer interest-bearing demand deposit accounts to commercial customers, which were previously forbidden under Regulation Q. The repeal of Regulation Q may cause increased competition from other financial institutions for these deposits. If the Bank decides to pay interest on demand accounts, its interest expense would likely increase.

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

The Dodd-Frank Act applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will change the way in which hybrid securities, such as trust preferred securities, are treated for purposes of determining a bank holding company's regulatory capital. On June 14, 2011, the federal banking agencies published a final rule regarding minimum leverage and risk-based capital requirements for banks and bank holding companies consistent with the requirements of Section 171 of the Dodd-Frank Act. For a more detailed description of the minimum capital requirements see *Supervision and Regulation Capital Standards*. The Dodd-Frank Act also increased regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. These requirements, and any other new regulations, could adversely affect the Company's ability to pay dividends, or could require the Company to reduce business levels or to raise capital, including in ways that may adversely affect the Company's results of operations or financial condition.

In addition, on September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. On December 20, 2011, the Federal Reserve announced its intention to implement substantially all of the Basel III rules which would generally be applicable to institutions with greater than \$50 billion in assets. Banking regulators could implement additional changes to the capital adequacy standards applicable to the Company and the Bank in the future.

When fully phased in, Basel III will introduce a minimum Tier I common equity ratio of 4.5%, net of regulatory deductions, and establish a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets above the regulatory minimum capital requirement, establishing a minimum common equity ratio plus capital conservation buffer at 7%. This capital conservation buffer will impose capital distribution constraints when the Tier I capital ratio falls under 8.5% and the total capital ratio falls under 10.5%. In addition, Basel III introduces a countercyclical capital buffer of up to 2.5% of common equity or other loss absorbing capital above the regulatory capital minimum plus the capital conservation buffer for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier I leverage ratio based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a period of several years. The text of the final Basel III capital and liquidity rules was published on December 16, 2010, and is now subject to individual adoption by member nations, including the United States.

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

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

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at

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an adequate level. In light of current economic conditions, the FDIC has increased its assessment rates and imposed special assessments. The FDIC may further increase these rates and impose additional special assessments in the future, which could have a material adverse effect on future earnings.

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

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

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

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

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

The Company is a separate and distinct legal entity from the Bank, and it receives substantially all of its revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on its common stock and interest and principal on debt. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Company. In the event the Bank is unable to pay dividends to the Company, it may not be able to service debt, pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, 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.

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*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, and/or other projected benefits from an acquisition could have a material adverse effect on the Company's financial condition and results of operations.

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

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

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

The Company relies heavily on communications and information systems to conduct its business. Furthermore, the Bank provides its customers the ability to bank online. The secure transmission of confidential information over the internet is a critical element of online banking. Any failure, interruption or breach in security of these systems could result in failures or disruptions in its customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our 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. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage its reputation, result in a loss of customer business, subject the Company to additional



regulatory scrutiny, or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on the financial condition and results of operations of the Company.

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*The Company continually encounters technological change.*

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

*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 or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

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

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the ability of the Company to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

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### *Risks Associated With the Company's Common Stock*

*The Company's stock price can be volatile.*

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

actual or anticipated variations in quarterly results of operations;

recommendations by securities analysts;

operating and stock price performance of other companies that investors deem comparable to the Company;

news reports relating to trends, concerns and other issues in the banking and financial services industry;

perceptions in the marketplace regarding the Company and/or its competitors;

new technology used, or services offered, by competitors;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;

failure to integrate acquisitions or realize anticipated benefits from acquisitions;

changes in government regulations; and

geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

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

The Company's common stock is listed for trading on The NASDAQ Global Market, having transferred the listing of its common stock from the American Stock Exchange in November 2006. 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 its common stock.

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

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

*Our Articles of Incorporation and Bylaws, as well as certain banking laws, may have an anti-takeover effect.*

Provisions of our Articles of Incorporation, Bylaws, Shareholder Rights Plan, which are exhibits to this Annual Report on Form 10-K, and the federal banking laws, including regulatory

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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 our shareholders. The combination of these provisions impedes a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company's common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company, through the Bank, currently operates from its main office in downtown Philadelphia, Mississippi, and from 21 additional branches in Neshoba, Newton, Leake, Scott, Attala, Lauderdale, Oktibbeha, Rankin, Winston, Kemper, Forrest and Lamar counties, Mississippi. The Company also operates a loan production office in Biloxi, Mississippi. Information about these branches is set forth in the table below:

NAME OF OFFICE	LOCATION/ TELEPHONE NUMBER	BANKING FUNCTIONS OFFERED
	Main Office	521 Main Street Philadelphia, Mississippi (601) 656-4692
Eastside Branch	599 East Main Street Philadelphia, Mississippi (601) 656-4976	Full Service; 24 Hour Teller
Westside Branch	912 West Beacon Street Philadelphia, Mississippi (601) 656-4978	Full Service; 24 Hour Teller
Northside Branch	802 Pecan Avenue Philadelphia, Mississippi (601) 656-4977	Deposits; 24 Hour Teller
Union Branch	502 Bank Street Union, Mississippi (601) 774-9231	Full Service
Carthage Main Office	301 West Main Street Carthage, Mississippi (601) 267-4525	Full Service

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Flowood Branch	5419 Hwy 25, Suite Q Flowood, Mississippi (601) 992-7688	Deposits; Loans
Sebastopol Branch	24 Pine Street Sebastopol, Mississippi (601) 625-7447	Full Service; 24-Hour Teller
DeKalb Branch	176 Main Avenue DeKalb, Mississippi (601) 743-2115	Full Service
Kosciusko Branch	775 North Jackson Avenue Kosciusko, Mississippi (662) 289-4356	Full Service; 24-hour Teller
Scooba Branch	27597 Highway 16 East Scooba, Mississippi (662) 476-8431	Full Service
Meridian Eastgate Branch	1825 Highway 39 North Meridian, Mississippi (601) 693-8367	Full Service; 24-Hour Teller
Decatur Branch	15330 Highway 15 South Decatur, Mississippi (601) 635-2321	Full Service; 24-Hour Teller
Forest Branch	247 Woodland Drive North Forest, Mississippi (601) 469-3424	Full Service; 24-Hour Teller
Louisville Main Branch	100 East Main Street Louisville, MS (662) 773-6261	Full Service; 24 Hour Teller
Louisville Industrial Branch	803 South Church Street Louisville, MS (662) 773-6261	Drive-Up
Noxapater Branch	45 East Main Street Noxapater, MS (662) 724-4261	Deposits
Starkville Branch	201 Highway 12 West Starkville, MS 39759 (662) 323-4210	Full Service; 24 Hour Teller

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Collinsville Branch	9065 Collinsville Road Collinsville, MS 39325 (601) 626-7608	Full Service; 24 Hour Teller
Meridian Mid-Town	905 22 <sup>nd</sup> Avenue Meridian, MS 39301 (601) 482-8858	Full Service; 24 Hour Teller
Meridian Broadmoor	5015 Highway 493 Meridian, MS 39305 (601) 581-1541	Full Service; 24 Hour Teller
Hattiesburg	6222 Highway 98 West Hattiesburg, MS 39402 (601) 264-4425	Full Service
Biloxi Loan Production Office	1765 Popps Ferry Road Biloxi, MS 39532 (228) 594-6913	Loans

The Bank owns its main office and its branch offices, except for the Biloxi Loan Production Office, the Flowood and Meridian Mid-Town Branches, which are 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 12,000 square feet to 1,000 square feet.

**ITEM 3. LEGAL PROCEEDINGS.**

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

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

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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 2012 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

**ITEM 6. SELECTED FINANCIAL DATA.**

Information required in response to this Item 6 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2012, 2011 and 2010 - Selected Financial Data" in the 2012 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.

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

Information required in response to this Item 7 can be found under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2012, 2011 and 2010" in the 2012 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 2012 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 2012 Annual Report to Shareholders, a copy of which is filed as an Exhibit to this Annual Report on Form 10-K. Such information is incorporated herein by reference.



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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.  
None.

ITEM 9A. CONTROLS AND PROCEDURES.

**Disclosure Controls and Procedures**

The management of this Company, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934 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, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2012 (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 2012 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 2012 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

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PART III

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Information required in partial response to this Item 10 can be found under the heading "Executive Officers of the Registrant" in Item 1, "Business," and under the headings "Stock Ownership" and "Board of Directors" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 21, 2013, relating to its 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

**Code of Ethics**

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

**ITEM 11. EXECUTIVE COMPENSATION.**

Information required in response to this Item 11 can be found under the headings "Board of Directors," "Executive Officers and Executive Compensation," "Report of the Compensation Committee," and "Compensation Committee Interlocks and Insider Participation" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 21, 2013, relating to its 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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

Information required in partial response to this Item 12 can be found under the heading "Stock Ownership" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 21, 2013, relating to its 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

**Table of Contents****Equity Compensation Plan Information**

The following table provides information about the Company's equity compensation plan as of December 31, 2012.

**Equity Compensation Plan Information**

<b>Plan category</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>(b) Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))</b>
Equity compensation plans approved by security holders <sup>(1)</sup>	219,000	\$20.94	4,200
Equity compensation plans not approved by security holders	-0-	\$0.00	-0-
<b>Total</b>	<b>219,000</b>	<b>\$20.94</b>	<b>4,200</b>

<sup>(1)</sup> The 1999 Directors' Stock Compensation Plan.

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

Information required in response to this Item 13 can be found under the heading "Board of Directors" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 21, 2013, relating to its 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Information required in response to this Item 14 can be found under the heading "Proposal No. 4, Appointment of HORNE LLP as our Independent Registered Public Accounting Firm" in the Company's Definitive Proxy Statement to be filed with the SEC on or about March 21, 2013, relating to its 2013 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements

1. Consolidated Financial Statements and Supplementary Information for years ended December 31, 2010, 2011 and 2012, 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 Position
  - (iv) Consolidated Statements of Income
  - (v) Consolidated Statements of Comprehensive Income
  - (vi) Consolidated Statements of Changes in Stockholders' Equity
  - (vii) Consolidated Statements of Cash Flows
  - (viii) Notes to Consolidated Financial Statements
2. Financial Statement Schedules
 

None.
3. Exhibits required by Item 601 of Regulation S-K
  - 3(i) Amended Articles of Incorporation of the Company \*
  - 3(ii) Amended and Restated Bylaws of the Company, as amended \*\*
  - 4 Rights Agreement between Citizens Holding Company - and The Citizens Bank of Philadelphia, Mississippi \*
  - 10(a) Directors' Deferred Compensation Plan - Form of Agreement \*
  - 10(b) Citizens Holding Company 1999 Directors' Stock Compensation Plan \*
  - 10(c) Citizens Holding Company 1999 Employees' Long-Term Incentive Plan \*
  - 10(d) Change in Control Agreement dated December 10, 2002 between the Company and Greg L. McKee \*\*\*
  - 10(f) Supplemental Executive Retirement Plan \*\*\*\*
  - 13 2012 Annual Report to Shareholders
  - 14 Code of Ethics \*\*\*\*\*
  - 21 Subsidiaries of Registrant
  - 23 Consent of Independent Registered Public Accounting Firm
  - 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
  - 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
  - 32.1 Section 1350 Certification of Chief Executive Officer
  - 32.2 Section 1350 Certification of Chief Financial Officer
  - 101 XBRL Exhibits

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- \* Filed as an exhibit to the Form 10 Registration Statement of the Company (File No. 000-25221) filed on December 30, 1998 and incorporated herein by reference, and also filed as an exhibit to Amendment No. 1 to Form 10 Registration Statement of the Company (File No. 000-25221) filed on June 21, 1999 and incorporated herein by reference.
- \*\* Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 000-25221) filed on March 15, 2007 and incorporated herein by reference.
- \*\*\* Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 000-25221) filed on March 31, 2003 and incorporated herein by reference.
- \*\*\*\* Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (File No. 000-25221) filed on March 16, 2005 and incorporated herein by reference.
- \*\*\*\*\* Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (File No. 000-25221) filed on March 26, 2004, as updated on our website, <http://www.citizensholdingcompany.com> and the Code of Ethics incorporated herein by reference.  
Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

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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 8, 2013

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

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

SIGNATURES	CAPACITIES	DATE
/s/ Greg L. McKee Greg L. McKee	Director, President and Chief Executive Officer (Principal Executive Officer)	March 8, 2013
/s/ Robert T. Smith Robert T. Smith	Treasurer, Chief Financial Officer (Principal Financial & Accounting Officer)	March 8, 2013
/s/ Craig Dungan Craig Dungan, MD	Director	March 8, 2013
/s/ Don L. Fulton Don L. Fulton	Director	March 8, 2013
/s/ Donald L. Kilgore Donald L. Kilgore	Director	March 8, 2013
/s/ David A. King David A. King	Director	March 8, 2013
/s/ Herbert A. King Herbert A. King	Chairman of the Board	March 8, 2013
/s/ Adam Mars Adam Mars	Director	March 8, 2013

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/s/ David P. Webb David P. Webb	Director	March 8, 2013
/s/ A. T. Williams A.T. Williams	Director	March 8, 2013
/s/ Terrell E. Winstead Terrell E. Winstead	Director	March 8, 2013

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**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description of Exhibit</b>
13	2012 Annual Report to Shareholders
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101	XBRL Exhibits