

CITIZENS HOLDING CO /MS/  
Form 10-Q  
May 10, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2013

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)

<b>MISSISSIPPI</b> (State or other jurisdiction of incorporation or organization)	<b>64-0666512</b> (IRS Employer Identification No.)
<b>521 Main Street, Philadelphia, MS</b> (Address of principal executive offices)	<b>39350</b> (Zip Code)
<b>601-656-4692</b> (Registrant's telephone number, including area code)	

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 such shorter period that the registrant was required to submit and post such files).  Yes  No

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

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

Number of shares outstanding of each of the issuer's classes of common stock, as of May 7, 2013:

Title	Outstanding
Common Stock, \$0.20 par value	4,868,614

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CITIZENS HOLDING COMPANY

INTERIM FINANCIAL STATEMENTS FOR QUARTER ENDED MARCH 31, 2013

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited).

## CITIZENS HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF CONDITION (Unaudited)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 30,334,781	\$ 21,561,288
Interest bearing deposits with other banks	57,280,471	16,228,747
Investment securities available for sale, at fair value	382,868,109	420,907,815
Loans, net of allowance for loan losses of \$6,834,575 in 2013 and \$6,954,269 in 2012	363,560,970	361,936,495
Premises and equipment, net	19,193,227	19,425,292
Other real estate owned, net	4,688,832	4,682,255
Accrued interest receivable	4,451,829	4,665,868
Cash value of life insurance	21,358,748	21,191,930
Intangible assets, net	3,149,657	3,149,657
Other assets	7,750,245	7,090,551
<b>TOTAL ASSETS</b>	<b>\$ 894,636,869</b>	<b>\$ 880,839,898</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 120,186,091	\$ 119,946,574
Interest-bearing NOW and money market accounts	247,218,296	228,111,275
Savings deposits	49,381,863	46,240,652
Certificates of deposit	242,306,054	248,250,837
Total deposits	659,092,304	642,549,338
Securities sold under agreement to repurchase	71,484,028	73,306,765
Federal Home Loan Bank advances	68,500,000	68,500,000
Accrued interest payable	261,487	321,472
Deferred compensation payable	6,116,793	5,917,662
Other liabilities	1,278,534	1,375,831
Total liabilities	806,733,146	791,971,068
<b>STOCKHOLDERS EQUITY</b>		
Common stock; \$.20 par value, 22,500,000 shares authorized, 4,868,411 shares outstanding at March 31, 2013 and 4,861,411 shares outstanding at December 31, 2012	973,682	972,282
Additional paid-in capital	3,723,917	3,620,967
Retained earnings	80,271,385	79,928,035
Accumulated other comprehensive income, net of applicable taxes of \$1,680,555 in 2013 and \$2,586,340 in 2012	2,934,739	4,347,546
Total stockholders equity	87,903,723	88,868,830
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 894,636,869</b>	<b>\$ 880,839,898</b>

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



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## CITIZENS HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
<b>INTEREST INCOME</b>		
Loan income, including fees	\$ 5,199,181	\$ 5,972,237
Investment securities	2,770,766	2,917,395
Other interest	17,700	9,358
<b>Total interest income</b>	<b>7,987,647</b>	<b>8,898,990</b>
<b>INTEREST EXPENSE</b>		
Deposits	520,143	724,706
Other borrowed funds	712,083	785,883
<b>Total interest expense</b>	<b>1,232,226</b>	<b>1,510,589</b>
<b>NET INTEREST INCOME</b>	<b>6,755,421</b>	<b>7,388,401</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>174,509</b>	<b>535,680</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>6,580,912</b>	<b>6,852,721</b>
<b>OTHER INCOME</b>		
Service charges on deposit accounts	890,857	847,650
Other service charges and fees	452,927	428,596
Other income	337,207	333,353
<b>Total other income</b>	<b>1,680,991</b>	<b>1,609,599</b>
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	3,306,170	3,559,704
Occupancy expense	1,112,511	1,031,309
Other operating expense	2,138,483	1,819,254
<b>Total other expenses</b>	<b>6,557,164</b>	<b>6,410,267</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>1,704,739</b>	<b>2,052,053</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>290,293</b>	<b>388,887</b>
<b>NET INCOME</b>	<b>\$ 1,414,446</b>	<b>\$ 1,663,166</b>
<b>NET INCOME PER SHARE</b>		
-Basic	\$ 0.29	\$ 0.34
-Diluted	\$ 0.29	\$ 0.34
<b>DIVIDENDS PAID PER SHARE</b>	<b>\$ 0.22</b>	<b>\$ 0.22</b>

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

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## CITIZENS HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Net income	\$ 1,414,446	\$ 1,663,166
Other comprehensive income, net of tax		
Unrealized holding losses	(2,253,281)	(2,744,528)
Income tax effect	840,474	1,027,701
	(1,412,807)	(1,716,827)
Reclassification adjustment for gains included in net income		(39,394)
Income tax effect		10,702
		(28,692)
Total other comprehensive loss	(1,412,807)	(1,745,519)
Comprehensive income (loss)	\$ 1,639	\$ (82,353)

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

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## CITIZENS HOLDING COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net cash provided by operating activities	\$ 2,450,945	\$ 2,521,543
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of securities available for sale	59,512,178	77,616,772
Purchases of investment securities available for sale	(24,039,375)	(89,927,212)
Purchases of bank premises and equipment	(46,453)	(11,529)
Increase in interest bearing deposits with other banks	(41,051,724)	(2,009,517)
Proceeds from sale of other real estate acquired by foreclosure	527,780	567,800
Net (increase) decrease in loans	(2,333,341)	4,304,195
Net cash used by investing activities	(7,430,935)	(9,459,491)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	16,542,965	11,336,367
Net change in securities sold under agreement to repurchase	(1,822,737)	(39,864,779)
Proceeds from exercising stock options	104,350	153,675
Increase in Federal Home Loan Bank advances		10,000,000
Increase in federal funds purchased		11,200,000
Payment of dividends	(1,071,095)	(1,067,970)
Net cash provided (used) by financing activities	13,753,483	(8,242,707)
Net increase (decrease) in cash and due from banks	8,773,493	(15,180,655)
Cash and due from banks, beginning of period	21,561,288	35,407,715
Cash and due from banks, end of period	\$ 30,334,781	\$ 20,227,060

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



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CITIZENS HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three months ended March 31, 2013

(Unaudited)

**Note 1. Basis of Presentation**

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). However, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The interim consolidated financial statements are unaudited and reflect all adjustments and reclassifications, which, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition as of and for the interim periods presented. All adjustments and reclassifications are of a normal and recurring nature. Results for the period ended March 31, 2013, are not necessarily indicative of the results that may be expected for any other interim periods or for the year as a whole.

The interim consolidated financial statements of Citizens Holding Company include the accounts of its wholly-owned subsidiary, The Citizens Bank of Philadelphia (the Bank and collectively with Citizens Holding Company, the Corporation). All significant intercompany transactions have been eliminated in consolidation.

For further information and significant accounting policies of the Corporation, see the Notes to Consolidated Financial Statements of Citizens Holding Company included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on March 15, 2013.

**Note 2. Commitments and Contingent Liabilities**

In the ordinary course of business, the Corporation enters into commitments to extend credit to its customers. The unused portion of these commitments is not reflected in the accompanying financial statements. As of March 31, 2013, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of \$33,218,063 compared to an aggregate unused balance of \$37,703,387 at December 31, 2012. There were \$2,892,830 of letters of credit outstanding at March 31, 2013 and \$3,113,225 at December 31, 2012. The fair value of such contracts is not considered material because letters of credit and loan commitments often are not used in their entirety, if at all, before they expire. The balances of such letters and commitments should not be used to project actual future liquidity requirements. However, the Corporation does incorporate expectations about the level of draws under its credit-related commitments into its asset and liability management program.

The Corporation is a party to lawsuits and other claims that arise in the ordinary course of business, all of which are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provisions are made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not have a material impact on the Corporation's consolidated financial condition or results of operations.

**Table of Contents****Note 3. Net Income per Share**

Net income per share basic has been computed based on the weighted average number of shares outstanding during each period. Net income per share diluted has been computed based on the weighted average number of shares outstanding during each period plus the dilutive effect of outstanding stock options using the treasury stock method. Earnings per share was computed as follows:

	For the Three Months Ended March 31,	
	2013	2012
Basic weighted average shares outstanding	4,866,933	4,849,164
Dilutive effect of granted options	5,429	9,452
<b>Diluted weighted average shares outstanding</b>	<b>4,872,362</b>	<b>4,858,616</b>
Net income	\$ 1,414,446	\$ 1,663,166
Net income per share-basic	\$ 0.29	\$ 0.34
Net income per share-diluted	\$ 0.29	\$ 0.34

**Note 4. Stock Option Plan**

At March 31, 2013, the Corporation had one stock-based compensation plan, which is the 1999 Directors' Stock Compensation Plan (the Directors' Plan). Prior to its expiration, the Corporation also had the 1999 Employees' Long-Term Incentive Plan, or the Employees' Plan.

The following table below is a summary of the stock option activity for the three months ended March 31, 2013.

	Directors' Plan Number of Shares	Plan Weighted Average Exercise Price	Employees' Plan Number of Shares	Plan Weighted Average Exercise Price
Outstanding at December 31, 2012	111,000	\$ 20.97	108,000	\$ 20.90
Granted				
Exercised			(7,000)	14.91
Expired			(13,000)	16.26
<b>Outstanding at March 31, 2013</b>	<b>111,000</b>	<b>\$ 20.97</b>	<b>88,000</b>	<b>\$ 22.06</b>

The intrinsic value of options granted under the Directors' Plan at March 31, 2013, was \$61,050 and the intrinsic value of options granted under the Employees' Plan at March 31, 2013, was \$2,700 for a total intrinsic value at March 31, 2013, of \$63,750.

**Table of Contents****Note 5. Income Taxes**

The income tax topic of the Accounting Standards Codification ( ASC ) defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. This topic also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. As of March 31, 2013, the Corporation had no unrecognized tax benefits related to federal and state income tax matters. Therefore, the Corporation does not anticipate any material increase or decrease in the effective tax rate during 2013 relative to any tax positions taken. It is the Corporation's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Corporation files a consolidated United States federal income tax return. The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for all tax years after 2009. The Corporation's consolidated state income tax returns are also open to audit under the statute of limitations for the same period.

**Note 6. Loans**

The composition of net loans at March 31, 2013 and December 31, 2012 is as follows:

	March 31, 2013	December 31, 2012
	(In Thousands)	
<b>Real Estate:</b>		
Land Development and Construction	\$ 14,993	\$ 12,755
Farmland	32,309	31,663
1-4 Family Mortgages	109,392	115,837
Commercial Real Estate	140,770	132,495
<b>Total Real Estate Loans</b>	<b>297,464</b>	<b>292,750</b>
<b>Business Loans:</b>		
Commercial and Industrial Loans	44,436	45,564
Farm Production and Other Farm Loans	1,451	1,433
<b>Total Business Loans</b>	<b>45,887</b>	<b>46,997</b>
<b>Consumer Loans:</b>		
Credit Cards	970	1,050
Other Consumer Loans	26,447	28,341
<b>Total Consumer Loans</b>	<b>27,417</b>	<b>29,391</b>
<b>Total Gross Loans</b>	<b>370,768</b>	<b>369,138</b>
Unearned income	(372)	(248)
Allowance for loan losses	(6,835)	(6,954)
<b>Loans, net</b>	<b>\$ 363,561</b>	<b>\$ 361,936</b>

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

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

	March 31, 2013	December 31, 2012
	(in thousands)	
<b>Real Estate:</b>		
Land Development and Construction	\$ 193	\$ 142
Farmland	751	1,087
1-4 Family Mortgages	2,278	2,356
Commercial Real Estate	9,455	10,175
<b>Total Real Estate Loans</b>	<b>12,677</b>	<b>13,760</b>
<b>Business Loans:</b>		
Commercial and Industrial Loans	2,575	167
Farm Production and Other Farm Loans	2	3
<b>Total Business Loans</b>	<b>2,577</b>	<b>170</b>
<b>Consumer Loans:</b>		
Other Consumer Loans	183	212
<b>Total Consumer Loans</b>	<b>183</b>	<b>212</b>
<b>Total Non-Accrual Loans</b>	<b>\$ 15,437</b>	<b>\$ 14,142</b>

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An aging analysis of past due loans, segregated by class of loans, as of March 31, 2013, was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
<b>Real Estate:</b>						
Land Development and Construction	\$ 41	\$ 37	\$ 78	\$ 14,915	\$ 14,993	\$
Farmland	307	697	1,004	31,305	32,309	
1-4 Family Mortgages	3,717	488	4,205	105,187	109,392	17
Commercial Real Estate	1,394	4,892	6,286	134,484	140,770	
<b>Total Real Estate Loans</b>	<b>5,459</b>	<b>6,114</b>	<b>11,573</b>	<b>285,891</b>	<b>297,464</b>	<b>17</b>
<b>Business Loans:</b>						
Commercial and Industrial Loans	408	20	428	44,008	44,436	
Farm Production and Other Farm Loans	6		6	1,445	1,451	
<b>Total Business Loans</b>	<b>414</b>	<b>20</b>	<b>434</b>	<b>45,453</b>	<b>45,887</b>	
<b>Consumer Loans:</b>						
Credit Cards	16	15	31	939	970	15
Other Consumer Loans	832	118	950	25,497	26,447	26
<b>Total Consumer Loans</b>	<b>848</b>	<b>133</b>	<b>981</b>	<b>26,436</b>	<b>27,417</b>	<b>41</b>
<b>Total Loans</b>	<b>\$ 6,721</b>	<b>\$ 6,267</b>	<b>\$ 12,988</b>	<b>\$ 357,780</b>	<b>\$ 370,768</b>	<b>\$ 58</b>

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An aging analysis of past due loans, segregated by class of loans, as of December 31, 2012 was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
<b>Real Estate:</b>						
Land Development and Construction	\$ 2,588	\$	\$ 2,588	\$ 10,167	\$ 12,755	\$
Farmland	786	589	1,375	30,288	31,663	
1-4 Family Mortgages	8,139	623	8,762	107,075	115,837	32
Commercial Real Estate	3,033	5,013	8,046	124,449	132,495	544
<b>Total Real Estate Loans</b>	<b>14,546</b>	<b>6,225</b>	<b>20,771</b>	<b>271,979</b>	<b>292,750</b>	<b>576</b>
<b>Business Loans:</b>						
Commercial and Industrial Loans	3,070	9	3,079	42,485	45,564	
Farm Production and other Farm Loans	2		2	1,431	1,433	
<b>Total Business Loans</b>	<b>3,072</b>	<b>9</b>	<b>3,081</b>	<b>43,916</b>	<b>46,997</b>	
<b>Consumer Loans:</b>						
Credit Cards	40	30	70	980	1,050	30
Other Consumer Loans	1,711	57	1,768	26,573	28,341	3
<b>Total Consumer Loans</b>	<b>1,751</b>	<b>87</b>	<b>1,838</b>	<b>27,553</b>	<b>29,391</b>	<b>33</b>
<b>Total Loans</b>	<b>\$ 19,369</b>	<b>\$ 6,321</b>	<b>\$ 25,690</b>	<b>\$ 343,448</b>	<b>\$ 369,138</b>	<b>\$ 609</b>

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

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Impaired loans as of March 31, 2013 and December 31, 2012, by class of loans, are as follows (in thousands):

March 31, 2013	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
<b>Real Estate:</b>						
Land Development and Construction	\$ 193	\$ 74	\$ 119	\$ 193	\$ 117	\$ 664
Farmland	751	376	375	751	61	696
1-4 Family Mortgages	2,278	1,548	730	2,278	227	2,172
Commercial Real Estate	9,455	1,083	8,372	9,455	916	8,136
<b>Total Real Estate Loans</b>	<b>12,677</b>	<b>3,082</b>	<b>9,596</b>	<b>12,677</b>	<b>1,321</b>	<b>11,668</b>
<b>Business Loans:</b>						
Commercial and Industrial Loans	2,575	2,489	86	2,575	55	1,430
Farm Production and Other Farm Loans	2	2		2		12
<b>Total Business Loans</b>	<b>2,577</b>	<b>2,491</b>	<b>86</b>	<b>2,577</b>	<b>55</b>	<b>1,442</b>
<b>Consumer Loans:</b>						
Other Consumer Loans	183	183		183		309
<b>Total Consumer Loans</b>	<b>183</b>	<b>183</b>		<b>183</b>		<b>309</b>
<b>Total Loans</b>	<b>\$ 15,437</b>	<b>\$ 5,755</b>	<b>\$ 9,682</b>	<b>\$ 15,437</b>	<b>\$ 1,376</b>	<b>\$ 13,419</b>

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December 31, 2012	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
<b>Real Estate:</b>						
Land Development and Construction	\$ 142	\$ 18	\$ 124	\$ 142	\$ 117	\$ 638
Farmland	1,087	947	140	1,087	24	864
1-4 Family Mortgages	2,356	1,740	616	2,356	186	2,211
Commercial Real Estate	10,175	5,954	4,221	10,175	711	8,496
<b>Total Real Estate Loans</b>	<b>13,760</b>	<b>8,659</b>	<b>5,101</b>	<b>13,760</b>	<b>1,038</b>	<b>12,209</b>
<b>Business Loans:</b>						
Commercial and Industrial Loans	167	76	91	167	55	226
Farm Production and other Farm Loans	3	3		3		12
<b>Total Business Loans</b>	<b>170</b>	<b>79</b>	<b>91</b>	<b>170</b>	<b>55</b>	<b>238</b>
<b>Consumer Loans:</b>						
Other Consumer Loans	212	212		212		323
<b>Total Consumer Loans</b>	<b>212</b>	<b>212</b>		<b>212</b>		<b>323</b>
<b>Total Loans</b>	<b>\$ 14,142</b>	<b>\$ 8,950</b>	<b>\$ 5,192</b>	<b>\$ 14,142</b>	<b>\$ 1,093</b>	<b>\$ 12,770</b>



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

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
March 31, 2013			
Commercial real estate	4	\$ 6,850	\$ 5,573
Total	4	\$ 6,850	\$ 5,573

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2012			
Commercial real estate	4	\$ 6,850	\$ 5,602
Total	4	\$ 6,850	\$ 5,602

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

	Number of Loans	Recorded Investment
Totals at January 1, 2013	4	\$ 5,602
Reductions due to:		
Principal paydowns		29
Total at March 31, 2013	4	\$ 5,573

The allocated allowance for loan losses attributable to restructured loans was \$194 thousand at March 31, 2013 and \$43 thousand at December 31, 2012. The Corporation had no remaining availability under commitments to lend additional funds on these troubled debt restructuring as of March 31, 2013.

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

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

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

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

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

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

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

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

**Grade 8. DOUBTFUL** A loan classified as doubtful has all the weaknesses of a substandard classification and the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or

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improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. A doubtful classification could reflect the fact that the primary source of repayment is gone and serious doubt exists as to the quality of a secondary source of repayment.

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

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management's most updated judgment regarding grades at March 31, 2013.

The following table details the amount of gross loans by loan grade and class as of March 31, 2013 (in thousands):

Grades	Satisfactory 1, 2, 3, 4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
<b>Real Estate:</b>						
Land Development and Construction	\$ 12,666	\$ 2,003	\$ 324	\$	\$	\$ 14,993
Farmland	27,667	2,737	1,905			32,309
1-4 Family Mortgages	91,073	5,853	12,466			109,392
Commercial Real Estate	117,319	7,027	16,424			140,770
<b>Total Real Estate Loans</b>	<b>248,725</b>	<b>17,620</b>	<b>31,119</b>			<b>297,464</b>
<b>Business Loans:</b>						
Commercial and Industrial Loans	41,018	415	2,976	27		44,436
Farm Production and Other Farm Loans	1,423	23	5			1,451
<b>Total Business Loans</b>	<b>42,441</b>	<b>438</b>	<b>2,981</b>	<b>27</b>		<b>45,887</b>
<b>Consumer Loans:</b>						
Credit Cards	968		2			970
Other Consumer Loans	25,244	298	877	27	1	26,447
<b>Total Consumer Loans</b>	<b>26,212</b>	<b>298</b>	<b>879</b>	<b>27</b>	<b>1</b>	<b>27,417</b>
<b>Total Loans</b>	<b>\$ 317,378</b>	<b>\$ 18,356</b>	<b>\$ 34,979</b>	<b>\$ 54</b>	<b>\$ 1</b>	<b>\$ 370,768</b>

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The following table details the amount of gross loans by loan grade and class as of December 31, 2012 (in thousands):

	Grades	Satisfactory 1, 2, 3,4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
<b>Real Estate:</b>							
Land Development and Construction		\$ 10,596	\$ 1,890	\$ 269	\$	\$	\$ 12,755
Farmland		27,069	2,701	1,893			31,663
1-4 Family Mortgages		97,630	6,177	12,030			115,837
Commercial Real Estate		108,914	6,728	16,853			132,495
<b>Total Real Estate Loans</b>		<b>244,209</b>	<b>17,496</b>	<b>31,045</b>			<b>292,750</b>
<b>Business Loans:</b>							
Commercial and Industrial Loans		41,449	3,486	601	28		45,564
Farm Production and other Farm Loans		1,358	26	49			1,433
<b>Total Business Loans</b>		<b>42,807</b>	<b>3,512</b>	<b>650</b>	<b>28</b>		<b>46,997</b>
<b>Consumer Loans:</b>							
Credit Cards		1,020		30			1,050
Other Consumer Loans		26,995	287	1,029	28	2	28,341
<b>Total Consumer Loans</b>		<b>28,015</b>	<b>287</b>	<b>1,059</b>	<b>28</b>	<b>2</b>	<b>29,391</b>
<b>Total Loans</b>		<b>\$ 315,031</b>	<b>\$ 21,295</b>	<b>\$ 32,754</b>	<b>\$ 56</b>	<b>\$ 2</b>	<b>\$ 369,138</b>

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

The allowance on the majority of the loan portfolio is calculated using a historical chargeoff percentage applied to the current loan balances by loan segment. This historical period is the average of the previous 5 years with the most current years weighted to show the effect of the most recent chargeoff activity. This percentage is also adjusted for economic factors such as local unemployment and general business conditions, both local and nationwide.

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

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The following table details activity in the allowance for possible loan losses by portfolio segment for the three months ended March 31, 2013:

<b>March 31, 2013</b>	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2013	\$ 4,629,559	\$ 1,554,698	\$ 770,012	\$ 6,954,269
Provision for possible loan losses	742,220	(537,313)	(30,398)	174,509
Chargeoffs	276,473	1,404	60,136	338,013
Recoveries	14,520	7,126	22,164	43,810
<b>Net Chargeoffs</b>	<b>261,953</b>	<b>(5,722)</b>	<b>37,972</b>	<b>294,203</b>
Ending Balance	\$ 5,109,826	\$ 1,023,107	\$ 701,642	\$ 6,834,575
Period end allowance allocated to:				
Loans individually evaluated for impairment	\$ 1,321,099	\$ 54,706	\$	\$ 1,375,805
Loans collectively evaluated for impairment	3,788,727	968,401	701,642	5,458,770
Ending Balance, March 31, 2013	\$ 5,109,826	\$ 1,023,107	\$ 701,642	\$ 6,834,575

The following table details activity in the allowance for possible loan losses by portfolio segment for the three months ended March 31, 2012:

<b>March 31, 2012</b>	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2012	\$ 4,176,475	\$ 1,672,467	\$ 832,470	\$ 6,681,412
Provision for possible loan losses	595,451	(91,670)	31,899	535,680
Chargeoffs	125,200	15,263	68,382	208,845
Recoveries	6,672	22,395	35,031	64,098
<b>Net Chargeoffs</b>	<b>118,528</b>	<b>(7,132)</b>	<b>33,351</b>	<b>144,747</b>
Ending Balance	\$ 4,653,398	\$ 1,587,929	\$ 831,018	\$ 7,072,345