

CITIZENS HOLDING COMPANY

AUDIT COMMITTEE CHARTER

Organization

There shall be a committee of the Board of Directors of Citizens Holding Company (the “Company”) to be known as the audit committee. The audit committee shall be composed of directors each of whom meets the requirements of the American Stock Exchange. Each member of the audit committee shall be independent as defined in the Securities Act of 1934, as amended (the “Exchange Act”), and the rules promulgated thereunder and as provided in the requirements of the American Stock Exchange.

The audit committee shall be comprised of at least three members each of whom shall be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement of the Company, or will become able to do so within a reasonable period of time after his or her appointment to the audit committee. At least one member of the audit committee shall be a financial expert as defined in the Exchange Act and the rules promulgated thereunder.

The audit committee will meet as needed to fulfill their oversight function of the accounting processes of the Company. These meetings will be conducted when needed for quarterly financial statement approvals and the consideration and approval of internal audit reports presented to the audit committee. At a minimum, the audit committee will meet at least quarterly to fulfill the responsibilities that they have been assigned.

Statement of Policy

The audit committee is directly responsible for the appointment, compensation and oversight of the work of any registered public accounting firm employed by the Company (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. Each such registered public accounting firm shall report directly to the audit committee.

The audit committee shall provide assistance to the corporate directors in fulfilling their responsibility to the shareholders, potential shareholders, and investment community relating to corporate accounting, reporting practices of the Company, and the quality and integrity of the financial reports of the Company. In so doing, it is the responsibility of the audit committee to maintain free and open means of communication between the directors, the registered public accounting firm, the internal auditors, and the financial management of the Company.

Responsibilities

In carrying out its responsibilities, the audit committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to ensure to the directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

In carrying out these responsibilities, the audit committee, among other things, will:

- Establish procedures for (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Review the independence and performance of the registered public accounting firm and annually recommend to the directors the registered public accounting firm to be selected to audit the financial statements of the Company and its divisions and subsidiaries or approve any discharge of the registered public accounting firm when circumstances warrant.
- Meet with the registered public accounting firm and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof review such audit, including any comments or recommendations of the registered public accounting firm.
- Approve in advance all auditing services and non-audit services, including tax services, provided to the Company by the registered public accounting firm.
- Disclose to investors in periodic reports required by Section 13(a) of the Exchange Act the non-audit services to be performed by the registered public accounting firm approved in advance by the audit committee.
- Review with the registered public accounting firm, the company's internal auditor, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper. Further, the committee periodically should review company policy statements to determine their adherence to the code of conduct.
- Review the internal audit function of the Company including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the registered public accounting firm.

- Receive prior to each meeting, a summary of findings from completed internal audits and a progress report on the proposed internal audit plan, with explanations for any deviations from the original plan.
- Review the financial statements contained in the annual report to shareholders with management and the registered public accounting firm to determine that the registered public accounting firm are satisfied with the disclosure and content of the financial statements to be presented to the shareholders. Any changes in accounting principles should be reviewed.
- Provide sufficient opportunity for the internal and registered public accounting firm to meet with the members of the audit committee without members of management present. Among the items to be discussed in these meetings are the registered public accounting firm's evaluation of the Company's financial, accounting and auditing personnel, and the cooperation that the registered public accounting firm received during the course of the audit.
- Review accounting and financial human resources and succession planning within the company.
- Submit the minutes of all meetings of the audit committee to, or discuss the matters discussed at each committee meeting with, the board of directors.
- Investigate any matter brought to its attention within the scope of its duties.

Acknowledgment

The audit committee recognizes that it shall be unlawful for a registered public accounting firm that performs for the Company any audit required by the Exchange Act or the rules promulgated thereunder to provide to the Company, contemporaneously with the audit, any of the following non-audit services:

- bookkeeping or other services related to the accounting records or financial statements of the Company and its subsidiaries;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contributions-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;

- broker or dealer, investment advisor or investment banking services;
- legal services and expert services unrelated to the audit; and
- any other service that the Public Company Accounting Oversight Board determines, by regulation is impermissible.

Additional Matters

The audit committee may delegate to one or more designated members of the audit committee the authority to grant pre-approvals described in Section 10A of the Exchange Act. The decisions of any member to whom authority is delegated to pre-approve an activity shall be presented to the full audit committee at the scheduled meeting following the pre-approval of such activity.

The registered public accounting firm must timely report to the audit committee (1) all critical accounting policies/practices to be used; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the registered public accounting firm; and (3) any other material written communications between the registered public accounting firm and management, including management letters or schedules of unadjusted differences.

The audit committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the registered public accounting firm as well as any employee of the Company and its subsidiaries. The audit committee has the authority to retain, at the Company's expense and without the approval or oversight of the board of directors of the Company, special legal, accounting or other advisors or experts it deems necessary in the performance of its duties.

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