

2020 ANNUAL REPORT

CELEBRATING
100 YEARS

CITIZENS TRUST BANK

CITIZENS BANCSHARES
CORPORATION

SINCE 1921



100 YEARS STRONG

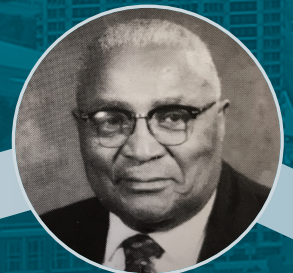
DIVERSITY

1921

August 16: The doors of Citizens Trust Company were opened on Sweet Auburn Avenue with \$500,000 in capital stock. The goals of the new bank were threefold: to **promote financial stability** and business development, to **stress the principles of thrift** and to **make home ownership possible** to a larger number of African-American people. The early years at Citizens Trust were ones of excitement, pride and joy. Customers eagerly lined up to make deposits of their hard-earned money into a bank which they could call their own. As a new bank, Citizens Trust had to overcome many obstacles, which were inherent in serving an economically disadvantaged community with limited to no access to financial services. An even greater challenge to overcome was the severe economic depression of the late 1920s and early 1930s. Citizens Trust Company, blessed with strong management, *survived*.

1955

During the struggle of the civil rights movement as Black Americans fought for equal rights under the law in the United States, Citizens Trust Bank continued to mobilize its support for the community it served. Citizens Trust Bank opened its first branch, the Westside Branch. This facility was opened in the community first developed by Heman Perry in the early 1900s. The Westside financial center remains open today as the bank's main financial center location and a **pillar of strength** in the southwest Atlanta community. To help chart the bank's course through the turbulent 1950s and 1960s, two legendary African American icons joined the board of directors, Dr. Benjamin E. Mays, president of Morehouse College and **Reverend Dr. Martin Luther King, Sr.**



1919

Five men envisioned a bank which would primarily serve African-American citizens of Atlanta, Georgia. Led by businessman **Heman E. Perry**, along with James A. Robinson, Thomas J. Ferguson, W.H. King and H. C. Dugas, later called "The Fervent Five", pooled their talent and resources to develop an African-American owned and operated bank.

1934

Citizens Trust Company became the first **African-American owned bank** in the United States to become a member of the Federal Deposit Insurance Corporation (FDIC). And, in **1947**, Citizens Trust Company was the first Black-owned bank to be a member of the Federal Reserve System.

EMPOWERMENT

2009

March 30: Living up to its commitment to its shareholders and customers by continuing to grow while maintaining a strong and solid foundation, Citizens Trust Bank completed another successful merger through its acquisition of the **Peoples Bank** branch in Lithonia, Georgia. This purchase in the southeast corridor of Atlanta significantly added to the bank's strong presence in DeKalb County.



1998

February 2: Under the leadership of **James E. Young**, president of First Southern Bank and **Dr. Johnnie L. Clark** at the helm of Citizens Trust Bank joined in alliance to form the nation's fifth largest African American owned financial institution. This agreement would merge the banks whereby Young would assume the presidency of Citizens Trust Bank until his untimely death in 2012.

INCLUSION

2012

Cynthia N. Day was named the President & CEO of Citizens Bancshares Corporation and Citizens Trust Bank. She is the first woman to be named as a permanent sitting CEO of the Company succeeding a trailblazer, Dr. Johnnie L. Clark, who was the first woman to lead the Company as an interim President.



2020

For 100 years, Citizens Trust Bank built its reputation on being there for its customers and the communities they represent, especially during critical times. The Bank's actions during the global COVID 19 crisis, especially through its participation with PPP application process, were essential to saving small businesses and the communities they support for years to come. **Citizens Trust Bank's participation in the SBA PPP ensured a greater opportunity to access the assistance needed for the communities most critically affected.**



GENDER EQUALITY

2017

August 4: Again, the bank's commitment to expand the growth of its customers was reinforced through its most recent acquisition of approximately 5,000 new customer relationships from another financial institution to support the citizens in that community. Well-executed, the strategic purchase strengthened the Bank's market footprint and afforded the Bank meaningful growth. More importantly it provided the opportunity to **deepen relationships**, while **adding value and a trusted partnership** to the bank's new customers.

The Company became private to further enhance the value for its shareholders.

Shareholders Message

During 2021,

Citizens Trust Bank celebrates its 100-year legacy. We could not be prouder of experiencing and celebrating this 100 year journey with you, our customers and our community.

The legacy of Citizens Trust Bank was built on the essence of vision, courage and honor.

In 1919, 'The Fervent Five', five African-American businessmen, pooled their intellect, capital and genuine love for community, to offer their neighbors access to resources that would help them realize the American Dream. They formed a community bank in Atlanta, headed by Heman E. Perry where they sought to emphasize the

importance of fiscal responsibility, thriftiness, home ownership and equal access and equality in financial services for all.

Since inception, this mission has remained steadfast and continues to be the bedrock of the Bank's commitment and long-term impact. Citizens Trust Bank is one of the country's oldest and most firmly established community banks, yet the team is adaptable and nimble to ensure that the Bank stays relevant in a rapidly changing environment and continues to meet our customers' needs and expectations

The story of Citizens Trust Bank is extraordinary. It has been a beacon of purpose, impact and resiliency. It survived the devastation of the



Circa 1920's

Citizens Trust Company customers eagerly lined up to deposit their hard-earned money and business investments into a bank which they called their own.



#ImpactForward: 2021

"Citizens Bank has been a partner to The Honey Pot through thick and thin. Even when traditional lenders could not partner, Citizens was able to see us for the company they knew we could be!"

Beatrice Dixon, Founder of The Honey Pot Co.

"It feels good to be a black woman in business right now. I am grateful...Being able to partner with Citizens Trust Bank during a pandemic has been a major highlight of my year."

Pinky Cole, Founder of Slutty Vegan





West Side Atlanta subdivisions

Hunter Road and Mozely Park

Citizens Trust Company and its Service Realty Company was instrumental in developing scores of new homes on in Atlanta's historic West Side.

#ImpactForward: 2021

"We went with the large bank servicing...the experience was filled with stress and miscommunication. The experience at CTB was in stark contrast. We not only experienced exceptional customer service, but also a swift transaction process."

Morris and Shirnelle Council



Great Depression, World War II, and became a vital institution for the burgeoning Civil Rights Movement. It also survived the Great Recession and now the pandemic. Every part of the Bank's story and history has made it stronger and more resilient, thus its long-term sustainability.

Although the fascinating and vital part of a legacy is what is left behind, perhaps the most dynamic part of our legacy is the road we pave forward.

Mission and Purpose in a Crisis

This time last year, our nation began navigating uncharted territory as we dealt with COVID-19, a global pandemic. Shortly thereafter, we were faced with the tragic deaths of Ahmaud Arbery, Breonna Taylor and George Floyd that generated a much needed national conversation on racial and economic inequalities. The challenges painfully reminded us that we must continue to fight for equality and financial access, the principles on which we were founded 100 years ago. It reinforced our commitment to social justice, economic equality and remaining a catalyst for providing solutions.

These national events impacted every aspect of our existence, affecting our teams, their families, our customers and their businesses. It required prayer and communication to assist our team and customers in finding healthy responses and solutions to these deeply rooted challenges.

In direct response to the pandemic, our first priority was the safety and well-being of our customers and our team. It required us to swiftly react and be flexible while shifting our operations and fundamental way of doing business with a small window of time to respond. It challenged us to be innovative and transformative in how we engaged and served our customers. We rose to the challenge and are proud of how we supported all of our stakeholders. It is moments like these that our mission resonated stronger than ever, showcasing our unique value as a trusted, knowledgeable, caring and pivotal part of the community we serve.

For our customers, we kept all our financial centers open from the onset to ensure that we were available and accessible when they needed us. We granted accommodations such as payment deferrals to aid our businesses in preserving liquidity to continue operations and save jobs.

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We enhanced the digitization of our platforms to allow customers to open accounts and fund loans remotely through our e-signature options. We partnered with small businesses, supporting them in comprehending the eligibility requirements for the Payroll Protection Program (PPP) and providing much needed funding that was, otherwise, difficult to obtain.

For our team, we quickly moved to a remote work environment. However, in support of our customer facing team members, we deployed personal protective equipment (PPE) for their protection and safety. In a spirit of care and appreciation, we provided lunch every Friday to show our gratitude for their commitment and dedication. For all team members, we provided paid leave for those who needed to care for family members or themselves due to the contraction of the virus. We also provided bonuses to demonstrate our understanding of their commitment and personal sacrifices to serve our customers.



Partners in Progress

Citizens Trust Bank's parent company, Citizens Bancshares Corporation was organized as a business corporation in 1972.

The Company owned two wholly-owned subsidiaries Citizens Trust Bank and CTB Mortgage Services, Inc.

For our community, we launched CTB Cares where we partnered with our customers to support the most vulnerable members of our communities. We matched dollar for dollar contributions from our customers and partners to provide meals to curtail food insecurities worsened by the pandemic.

Our 2020 Accomplishments

Though 2020 will go down in history as one of our most challenging years, we never lost focus of our vision and mission. We dedicated a tremendous amount of time and effort to supporting all of our stakeholders and had great successes in our Company, Citizens Bancshares Corporation. Citizens Bancshares Corporation, the holding company for the single subsidiary Citizens Trust Bank, is proud to share the following highlights for 2020

- 32% increase in Net Income over 2019, which included a \$5 million grant from Morgan Stanley mitigated by a \$1.7 million loan loss provision.
- A \$154 million or 37% increase in total assets year over year driven by growth in business, consumer and corporate relationships.
- The growth in assets was impacted by a 7% increase in gross loans and a 41% growth in deposits.
- We generated over \$30 million in PPP loans, supporting small businesses, and also lent in excess of \$46 million in other loans while successfully managing our credit risk as reflected by a delinquency ratio of 1.56% and a non-performing asset ratio of 0.69% as of December 31, 2020.

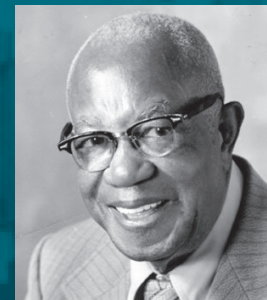
On the Shoulders of Two Giants



Herman J. Russell, Sr., Citizens Bancshares Corporation Chairman Emeritus. An entrepreneur and philanthropist turned a small plastering firm into one of the most successful African-American-owned real estate development and construction companies in America. Russell, a lifelong Atlantan who counted among his friends several presidents and the Rev. Dr. Martin Luther King Jr., helped to position the bank for unprecedented growth and wielded his influence far beyond Atlanta the Capitol of the South.

and

Arthur George Gaston, founder of Citizens Federal Savings Bank. Famed philanthropist and well-known entrepreneur, Gaston established several businesses in Birmingham, Alabama, and played a significant role in the struggle to integrate Birmingham in 1963.



February 28, 2003: Citizens Trust Bank acquired the historical Citizens Federal Savings Bank of Birmingham, Alabama. Through the acquisition of Citizens Federal, founded in 1957 by philanthropist and well-known entrepreneur Dr. A.G. Gaston, Citizens Trust Bank increased its assets to nearly \$400 million.

At this time, Citizens Trust Bank was first introduced to **Cynthia N. Day**. In 2005, two years after the acquisition, Ms. Day became the Senior Executive Vice President & COO of Citizens Trust Bank making her the first woman to hold this position in the history of both institutions.

- Deposits grew substantially from \$361 million to \$510 million due to a significant increase in new customers and new corporate partners. We are excited about the new customers who recognized the value proposition of a relationship with us. Further, we were pleased to partner with many large corporations who are aligned with and supportive of our mission to address the economic wealth disparities in our communities.
- We executed the implementation of a new core system to enhance our customer experience and continue to evolve our digital platform.
- The Bank remains strong and well capitalized with a Tier I capital ratio of 17% as of December 31, 2020.

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Historic Big Bethel AME Church

A spirit of community

On February 16, 1923, a disastrous fire took place at the Big Bethel Church. The bank was quick to respond and was instrumental in helping with fundraising activities that eventually led to the reconstruction of the church.



#ImpactForward: PPP Participation

“Citizens Trust Bank is a pillar in the Birmingham community that is known for developing relationships with small businesses. They helped me apply and get funded for the PPP loan...they worked diligently with me to work on a path of approval.

Congratulations to Citizens Trust Bank for doing your part to be an anchor for minority small businesses for 100 Years! You are the example of what it means to create a legacy business for generations to come.”

Selena Rodgers Dickerson
President of SARCOR, LLC, Selene, LLC,
and Logan-Rodgers, LLC



Small Business Administration: Paycheck Protection Program

In a year of both significant challenges and opportunities, one of our greatest and most rewarding accomplishments was supporting small businesses through the bank’s participation in the SBA Paycheck Protection Program (PPP). The PPP provided financial assistance to many small businesses affected by COVID-19.

Customers across every facet of our portfolio were impacted by government mandates intended to assure the safety of Americans. Schools were closed while students from kindergarten to universities were engaged in virtual learning. Places of religious worship were closed and forced to limit their congregation’s attendance. Unemployment rates elevated and some businesses in the most heavily impacted industries such as hotels and restaurants closed their doors with no indication of whether they could reopen or even survive.

We engaged each business to fully understand their needs. Our team committed and dedicated hours of time and resources to ensure that each eligible business gained access to PPP to sustain not only their business operations but the livelihood of their community. This reiterated our promise to be more than just in the community but to be invested in it as well. Further, it solidified and reinforced, to our customers, the value proposition of having a banking relationship with a trusted partner.

“Small businesses are always coached on the importance of building relationships with a bank. I feel like the team at the Citizens Trust Bank is an extension of my business.”

Selena Rodgers Dickerson
President of SARCOR, LLC, Selene, LLC, and Logan-Rodgers, LLC

The Impact Forward

Our commitment to you is to continue to champion our founders' vision—to provide access to financial services that meet the needs of all communities, particularly communities of color.

The vision has not changed but how we execute it continues to evolve. During 2021 and beyond, our number one priority is to diligently pursue innovation and cultivate partnerships that will enhance our digital footprint and transform our Company for generations to come. 100 years strong, we are Citizens Trust Bank and our strategic objective is to be the facilitator of a financial ecosystem that will impact businesses and communities across the nation.

We thank you our shareholders for your continued support and we applaud and thank this team for their commitment and sacrifice during a very challenging year.

Respectfully,



Cynthia N. Day
President and CEO
Citizens Trust Bank



Ray M. Robinson
Chairman of the Board
Citizens Bancshares Corporation

Boundless Impact: Paycheck Protection Program 2020 -21 Efforts

- Over **600** PPP loans were funded
- **\$62MM** funded PPP loans in the communities
- The overall average approved PPP loan size is **\$92,000**
- Over **86.9%** were for \$150,000 or less
- **62.9%** of loans were for \$50,000 or less

Top three industries to receive PPP loans were professionals (Physicians, Dentists, Real Estate Professionals), Religious Organizations (Churches), and full-service restaurants

Financials

SELECTED FINANCIAL DATA FOR CITIZENS BANCSHARES CORPORATION & SUBSIDIARY

Years ended December 31,

(amounts in thousands, except per share data and financial ratios)

2020

2019

2018

STATEMENT OF INCOME DATA:

Net interest income	\$14,395	\$15,380	\$14,812
Income before income tax expense	\$6,793	\$4,751	\$5,074
Net income	\$5,219	\$3,748	\$3,950

PER SHARE DATA:

Net income per common share—basic	\$2.64	\$1.79	\$1.88
Book value per common share	\$26.19	\$22.55	\$20.32
Cash dividends paid per common share	\$0.35	\$0.50	\$0.25

BALANCE SHEET DATA:

Loans, net of unearned income	\$287,495	\$269,632	\$260,919
Deposits	\$510,381	\$361,358	\$347,634
Advances from Federal Home Loan Bank	\$132	\$153	\$13,174
Total assets	\$571,926	\$417,828	\$410,584
Average stockholders' equity	\$49,417	\$45,054	\$40,442
Average assets	\$494,683	\$416,744	\$406,424

RATIOS:

Income before income tax expense to average assets	1.37%	1.14%	1.25%
Net income to average assets	1.06%	0.90%	0.97%
Net income to average shareholders equity	10.56%	8.32%	9.77%
Dividend payout ratio per common share	13.33%	28.11%	13.31%
Average stockholders' equity to average assets	9.99%	10.81%	9.95%
Tier 1 capital ratio (to risk weighted assets)	17%	16%	16%
Total capital ratio	18%	17%	17%

Citizens Bancshares Corporation and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019

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Citizens Bancshares Corporation and Subsidiary

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Independent Auditor's Report

The Board of Directors
Citizens Bancshares Corporation and Subsidiary
Atlanta, Georgia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Citizens Bancshares Corporation and its Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Bancshares Corporation and its Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
April 12, 2021

Citizens Bancshares Corporation and Subsidiary

Consolidated Balance Sheets

For the years ended December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks, including reserve requirements of \$0 and \$389,000 at December 31, 2020 and 2019, respectively	\$ 1,849,514	\$ 2,103,009
Federal funds sold	36,930,486	12,821,170
Interest bearing deposits with banks	<u>156,661,882</u>	<u>24,610,556</u>
Cash and cash equivalents	195,441,882	39,534,735
Certificates of deposit	850,000	850,000
Investment securities available for sale at fair value (amortized cost of \$62,161,548 and \$82,929,619 at December 31, 2020 and 2019, respectively)	64,019,061	82,904,841
Other investments	769,750	762,550
Loans receivable, net of allowance for loan losses of \$3,160,895 at December 31, 2020 and \$1,630,646 at December 31, 2019	284,334,181	268,000,557
Premises and equipment, net	7,154,463	7,334,318
Cash surrender value of life insurance	11,056,200	10,934,189
Other real estate owned	161,000	161,000
Right-of-use asset	1,959,770	2,187,858
Other assets	<u>6,180,066</u>	<u>5,157,908</u>
Total assets	<u>\$ 571,926,373</u>	<u>\$ 417,827,956</u>
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 195,283,299	\$ 109,318,103
Interest-bearing deposits	<u>315,098,132</u>	<u>252,039,983</u>
Total deposits	<u>510,381,431</u>	<u>361,358,086</u>
Accrued expenses and other liabilities	6,006,795	5,393,347
Lease liability	2,355,888	2,606,709
Notes payable	1,150,000	1,550,000
Advances from Federal Home Loan Bank	<u>131,791</u>	<u>153,205</u>
Total liabilities	<u>520,025,905</u>	<u>371,061,347</u>
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock \$1 par value; 20,000,000 shares authorized; 2,327,401 and 2,305,641 shares issued and outstanding at December 31, 2020 and 2019, respectively	2,327,401	2,305,641
Nonvoting common stock, \$1 par value; 5,000,000 shares authorized; 90,000 shares issued and outstanding at December 31, 2020 and 2019, respectively	90,000	90,000
Nonvested restricted common stock	(163,704)	(148,736)
Additional paid-in capital	8,636,623	8,420,945
Retained earnings	43,603,498	39,077,283
Treasury stock, at cost, 436,028 and 321,722 shares at December 31, 2020 and 2019, respectively	(4,088,600)	(3,005,587)
Accumulated other comprehensive income, net of income taxes	<u>1,495,250</u>	<u>27,063</u>
Total stockholders' equity	<u>51,900,468</u>	<u>46,766,609</u>
Total liabilities and stockholders' equity	<u>\$ 571,926,373</u>	<u>\$ 417,827,956</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2020 and 2019

	2020	2019
Interest income		
Loans, including fees	\$ 13,810,493	\$ 14,199,623
Investment securities		
Taxable	1,443,447	1,813,637
Non-taxable	152,673	269,280
Dividends	37,982	51,418
Federal funds sold	144,679	304,784
Interest-bearing deposits	<u>173,510</u>	<u>433,648</u>
Total interest income	<u>15,762,784</u>	<u>17,072,390</u>
Interest expense		
Deposits	1,286,359	1,601,125
Other borrowings	<u>81,603</u>	<u>91,445</u>
Total interest expense	<u>1,367,962</u>	<u>1,692,570</u>
Net interest income	14,394,822	15,379,820
Provision for loan losses	<u>1,710,200</u>	<u>170,000</u>
Net interest income after provision for loan losses	<u>12,684,622</u>	<u>15,209,820</u>
Noninterest income		
Service charges on deposit accounts	2,654,080	3,474,835
Gain on sales of securities	-	159,144
Gain on sales of premises and equipment	182,664	-
Mortgage origination fees	437,052	245,255
ATM surcharges	133,614	129,111
Bank owned life insurance	274,798	271,718
Other operating income	<u>6,203,182</u>	<u>680,829</u>
Total noninterest income	<u>9,885,390</u>	<u>4,960,892</u>
Noninterest expense		
Salaries and employee benefits	7,651,772	7,353,632
Occupancy and equipment	1,722,552	1,872,646
Other real estate owned	12,880	14,378
Other operating expenses	<u>6,389,993</u>	<u>6,179,016</u>
Total noninterest expense	<u>15,777,197</u>	<u>15,419,672</u>
Income before income tax expense	6,792,815	4,751,040
Income tax expense	<u>1,574,122</u>	<u>1,002,621</u>
Net income	<u>\$ 5,218,693</u>	<u>\$ 3,748,419</u>
Net income per common share - basic	<u>\$ 2.61</u>	<u>\$ 1.79</u>
Net income per common share - diluted	<u>\$ 2.55</u>	<u>\$ 1.67</u>
Weighted average outstanding shares		
Basic	1,998,516	2,095,111
Diluted	2,049,516	2,243,847

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary***Consolidated Statements of Comprehensive Income******For the years ended December 31, 2020 and 2019***

	<u>2020</u>	<u>2019</u>
Net income	\$ 5,218,693	\$ 3,748,419
Other comprehensive income		
Unrealized holding gains arising during the period	1,882,291	2,383,439
Reclassification adjustment for gains included in net income	-	(159,144)
Tax effect	<u>(414,104)</u>	<u>(489,344)</u>
Other comprehensive income, net of tax	<u>1,468,187</u>	<u>1,734,951</u>
Comprehensive income	<u>\$ 6,686,880</u>	<u>\$ 5,483,370</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2020 and 2019

	Preferred Stock		Common Stock		Nonvoting Common Stock		Nonvested Restricted Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Amount		
Balance, December 31, 2018	-	\$ -	2,287,241	\$ 2,287,241	90,000	\$ 90,000	(167,313)	\$ 8,242,470	\$ 36,382,497	(263,244)	\$ (2,174,336)	\$ (1,707,888)	\$ 42,952,671
Net income	-	-	-	-	-	-	-	-	3,748,419	-	-	-	3,748,419
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,734,951	1,734,951
Net change in restricted stock	-	-	-	-	-	-	18,577	5,215	-	-	-	-	23,792
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(58,478)	(831,251)	-	(831,251)
Issuance of common stock	-	-	18,400	18,400	-	-	-	173,260	-	-	-	-	191,660
Dividends paid on common stock	-	-	-	-	-	-	-	-	(1,053,633)	-	-	-	(1,053,633)
Balance, December 31, 2019	-	-	<u>2,305,641</u>	<u>2,305,641</u>	<u>90,000</u>	<u>90,000</u>	<u>(148,736)</u>	<u>8,420,945</u>	<u>39,077,283</u>	<u>(321,722)</u>	<u>(3,005,587)</u>	<u>27,063</u>	<u>46,766,609</u>
Net income	-	-	-	-	-	-	-	-	5,218,693	-	-	-	5,218,693
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,468,187	1,468,187
Net change in restricted stock	-	-	-	-	-	-	(14,968)	(4,520)	-	-	-	-	(19,488)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(114,306)	(1,083,013)	-	(1,083,013)
Issuance of common stock	-	-	21,760	21,760	-	-	-	220,198	-	-	-	-	241,958
Dividends paid on common stock	-	-	-	-	-	-	-	-	(692,478)	-	-	-	(692,478)
Balance, December 31, 2020	-	\$ -	<u>2,327,401</u>	<u>\$ 2,327,401</u>	<u>90,000</u>	<u>\$ 90,000</u>	<u>(163,704)</u>	<u>\$ 8,636,623</u>	<u>\$ 43,603,498</u>	<u>(436,028)</u>	<u>\$ (4,088,600)</u>	<u>\$ 1,495,250</u>	<u>\$ 51,900,468</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	\$ 5,218,693	\$ 3,748,419
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,710,200	170,000
Depreciation	606,052	655,060
Amortization and accretion of investment securities available for sale, net	470,250	530,409
Provision for deferred income taxes	(475,327)	28,140
Net gain on sale of securities	-	(159,144)
Gain on sale of other real estate owned	-	(25,772)
Gain on sale of premises and equipment	(182,664)	-
Restricted stock compensation	222,470	215,452
Increase in cash surrender value of life insurance	(122,011)	(271,718)
Change in assets and liabilities		
Change in other assets and right-of-use asset	(732,847)	(1,363,412)
Change in accrued expenses and other and lease liabilities	362,627	2,876,252
Net cash provided by operating activities	<u>7,077,443</u>	<u>6,403,686</u>
Cash flows from investing activities		
Net change in certificates of deposit	-	201,654
Proceeds from the sales, maturities and paydowns of securities available for sale	23,740,941	23,665,938
Purchases of securities available for sale	(3,443,120)	(10,761,583)
Net decrease (increase) in other investments	(7,200)	569,900
Net increase in loans	(18,043,824)	(8,933,048)
Purchases of premises and equipment	(900,369)	(245,133)
Proceeds from sale of other real estate owned	-	458,124
Proceeds from sale of premises and equipment	656,836	-
Net cash provided by investing activities	<u>2,003,264</u>	<u>4,955,852</u>
Cash flows from financing activities		
Net change in deposits	149,023,345	13,724,388
Principal payments on note payable	(400,000)	(150,000)
Net decrease in Federal Home Loan Bank advances	(21,414)	(13,020,990)
Common stock dividend paid	(692,478)	(1,053,633)
Net purchase of treasury stock	(1,083,013)	(831,251)
Net cash provided by (used in) financing activities	<u>146,826,440</u>	<u>(1,331,486)</u>
Net increase in cash and cash equivalents	155,907,147	10,028,052
Cash and cash equivalents, beginning of year	<u>39,534,735</u>	<u>29,506,683</u>
Cash and cash equivalents, end of year	<u>\$ 195,441,882</u>	<u>\$ 39,534,735</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	<u>\$ 1,496,862</u>	<u>\$ 1,708,004</u>
Income taxes	<u>\$ 1,806,741</u>	<u>\$ (285,607)</u>
Supplemental schedule of non-cash investing and financing activities		
Real estate acquired through foreclosure	<u>\$ -</u>	<u>\$ 45,540</u>
Change in unrealized gain on investment securities available for sale, net	<u>\$ 1,882,291</u>	<u>\$ 2,224,295</u>

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies

Business:

Citizens Bancshares Corporation is a holding company that provides a full range of commercial banking to individual and corporate customers in its primary market areas, metropolitan Atlanta, Georgia, and Birmingham and Eutaw, Alabama through its wholly owned subsidiary, Citizens Trust Bank (the "Bank" and together the "Company"). The Bank operates under a state charter and serves its customers through five full-service branches in metropolitan Atlanta, one full-service branch in Birmingham, Alabama, and one full-service branch in Eutaw, Alabama. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation:

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term are the allowance for loan losses, the valuation of allowances associated with the recognition of deferred tax assets and the value of foreclosed real estate assets.

Cash and cash equivalents:

Cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with banks and federal funds sold. The Federal Reserve Bank (the "FRB") requires the Company to maintain a required cash reserve balance on deposit with the FRB, based on the Company's daily average balance with the FRB. In response to the effects of the COVID-19 pandemic, the FRB temporarily eliminated the reserve requirement. Therefore, there was no reserve requirement as of December 31, 2020.

Interest-bearing deposits with banks:

Substantially all of the Company's interest-bearing deposits with banks represent funds maintained on deposit at the Federal Reserve Bank of Atlanta and the Federal Home Loan Bank of Atlanta ("FHLB"). These funds fluctuate daily and are used to manage the Company's liquidity and borrowing position. Funds can be withdrawn daily from this account and accordingly, the carrying amount of this account is at cost which is deemed to be a reasonable estimate of fair value.

Other investments:

Other investments consist of Federal Home Loan Bank stock and Federal Reserve Bank stock which are restricted and have no readily determinable market value. These investments are carried at cost.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Investment securities:

The Company classifies investments in one of three categories based on management's intent upon purchase: held to maturity securities which are reported at amortized cost, trading securities which are reported at fair value with unrealized holding gains and losses included in earnings, and available for sale securities which are recorded at fair value with unrealized holding gains and losses included as a component of accumulated other comprehensive income. The Company had no investment securities classified as trading or classified as held to maturity at December 31, 2020 or 2019.

Premiums and discounts on available for sale securities are amortized or accreted using a method which approximates a level yield. Amortization and accretion of premiums and discounts are presented within interest income from investment securities on the Consolidated Statements of Income.

Gains and losses on sales of investment securities are recognized upon disposition, based on the adjusted cost of the specific security. A decline in market value of any security below cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security. The determination of whether an other-than-temporary impairment has occurred involves significant assumptions, estimates, changes in economic conditions and judgment by management. There was no other-than-temporary impairment for securities recorded during 2020 or 2019.

Loans receivable and allowance for loan losses:

Loans are reported at principal amounts outstanding plus direct origination costs, net of loan fees and any direct charge-offs. Interest income is recognized over the term of the loan based on the principal amount outstanding. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. Premiums and discounts on loans purchased are amortized and accreted using the level yield method over the estimated remaining life of the loan purchased. The accretion and amortization of loan fees, origination costs, and premiums and discounts are included within loan interest income on the Consolidated Statements of Income.

Management considers a loan to be impaired when, based on current information and events, there is a potential that all amounts due according to the contractual terms of the loan may not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral less estimated disposal costs if the loan is collateral dependent.

Loans are generally placed on nonaccrual status when the full and timely collection of principal or interest becomes uncertain or the loan becomes contractually in default for 90 days or more as to either principal or interest, unless the loan is well collateralized and in the process of collection. When a loan is placed on nonaccrual status, current period accrued and uncollected interest is charged-off against interest income on loans unless management believes the accrued interest is recoverable through the liquidation of collateral. Loans are returned to accrual status when payment has been made according to the terms and conditions of the loan for a continuous six month period.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable and allowance for loan losses, continued:

The allowance for loan losses is maintained at a level that management believes to be adequate to absorb expected loan losses inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses is a valuation allowance for estimated credit losses inherent in the loan portfolio, increased by the provision for loan losses and decreased by charge-offs, net of recoveries. The Company estimates the allowance required on a monthly basis using charge-off history and other delinquency analysis as well as information about specific borrower situations and estimated collateral values, economic conditions, and other factors. The Company's historical loss experience is based on the actual loss history by class of loan. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries are credited to the allowance for loan losses.

Troubled debt restructurings:

Loans to be restructured are identified based on an assessment of the borrower's credit status, which includes, but is not limited to, a review of financial statements, payment delinquency, non-accrual status, and risk rating. Determining the borrower's credit status is a continual process that is performed by the Company's staff with periodic participation from an independent external loan review group.

Troubled debt restructurings ("TDRs") generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near-term and it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company seeks to assist these borrowers by working with them to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan while ensuring compliance with the Federal Financial Institutions Examination Council ("FFIEC") guidelines. To facilitate this process, a formal concessionary modification that would not otherwise be considered may be granted resulting in classification of the loan as a TDR.

The modification may include a change in the interest rate or the payment amount or a combination of both. Substantially all modifications completed under a formal restructuring agreement are considered TDRs. Modifications can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accruing status, depending on the individual facts and circumstances of the borrower. These restructurings rarely result in the forgiveness of principal or interest. Nonperforming TDRs may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period (generally a minimum of six months) prior to the date on which the loan is returned to accrual status.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation which is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in earnings for the period. The costs of maintenance and repairs, which do not improve or extend the useful life of the respective assets, are charged to earnings as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment is as follows:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 10 years

Leases:

In accordance with Accounting Standards Update ("ASU") 2016-02, the Company determines if a contractual arrangement is a lease at inception. Operating leases are included as operating right-of-use ("ROU") assets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Currently, the Company does not have any finance leases.

Other real estate owned:

Other real estate owned ("OREO") is reported at the lower of cost or fair value less estimated disposal costs, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. Any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is treated as a charge-off against the allowance for loan losses. Any subsequent declines in value are charged to earnings. Transactions in other real estate owned for the years ended December 31, 2020 and 2019 are summarized below:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 161,000	\$ 547,812
Additions	-	45,540
Sales	-	(432,352)
Write downs	-	-
Balance, end of year	<u>\$ 161,000</u>	<u>\$ 161,000</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Authoritative guidance governing the testing of indefinite lived intangible assets for impairment allows the option to first assess Goodwill by utilizing qualitative factors in determining if it is more likely than not that carrying value exceeds fair value. If, through this analysis, it is determined that it is more likely than not that carrying value exceeds fair value, then the next step requires estimation of the fair value of the reporting unit by quantitative assessment. If the fair value of the reporting unit exceeds its carrying value, no further testing is required. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. The Company has performed the annual impairment analysis as of December 31, 2020 and concluded no impairment exists. The carrying amount of goodwill is approximately \$362,000 as of December 31, 2020 and 2019, respectively, and is included within other assets on the Consolidated Balance Sheets.

Income taxes:

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided for the portion of a deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Net income available to common stockholders:

Basic net income, or earnings, per common share ("EPS") is computed based on net income available to common stockholders divided by the weighted average number of common shares outstanding. Diluted EPS is computed based on net income available to common stockholders divided by the weighted average number of common and potential common share equivalents. The only potential common share equivalents are those related to nonvested restricted stock grants. Common share equivalents which are anti-dilutive are excluded from the calculation of diluted EPS.

During the period, the Company received \$5.0 million of contributions from Morgan Stanley in recognition of the Company's work as a Certified Community Development Financial Institution and its promotion of the economic viability of minority and under-served communities. There are no specific requirements the Company must perform and no restrictions related to the Company's use of proceeds. The full amount of the contribution is reflected in net income and is included within noninterest income on the Consolidated Statements of Income.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Stock based compensation:

The market price of the Company's common stock is utilized at the date of grant for the determination of fair value for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period, using the market share price on the date of grant.

In 2017, 16,000 nonvested restricted shares of common stock were issued to certain officers and the Chief Executive Officer (CEO) at a grant price of \$9.80. These restricted common stock shares vested 100% (cliff vesting) on January 1, 2020.

In 2018, 16,000 nonvested restricted shares of common stock were issued to certain officers and the CEO at a grant price of \$12.30. These restricted common stock shares will vest 100% (cliff vesting) on January 1, 2021. In addition, 2,400 nonvested restricted shares of common stock were issued to members of the Board of Directors, excluding the CEO, at a grant price of \$12.70. These restricted common stock shares vested on January 1, 2019.

In 2019, 17,500 nonvested restricted shares of common stock were issued to certain officers and the CEO at a grant price of \$11.25. These restricted common stock shares will vest 100% (cliff vesting) on January 1, 2022. In addition, 2,880 nonvested restricted shares of common stock were issued to members of the Board of Directors, excluding the CEO, at a grant price of \$10.49. These restricted common stock shares vested on January 1, 2020.

In 2020, 17,500 nonvested restricted shares of common stock were issued to certain officers and the CEO at a grant price of \$10.00. These restricted common stock shares will vest 100% (cliff vesting) on January 1, 2023. In addition, 2,880 nonvested restricted shares of common stock were granted on August 3, 2020 to members of the Board of Directors, excluding the CEO, at a grant price of \$10.33. These restricted common stock shares vested on the date of grant.

Comprehensive income:

The Company reports comprehensive income in accordance with Accounting Standards Codification ("ASC") 220 "Comprehensive Income." ASC 220 requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income. The only component of comprehensive income relates to the change in value of available for sale securities.

Fair values of financial instruments:

ASC 820, "Fair Value Measurements and Disclosures," requires disclosure of fair value information for financial instruments, whether or not recognized in the balance sheet, when it is practicable to estimate the fair value. ASC 820 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock. In addition, other nonfinancial instruments such as premises and equipment and other assets and liabilities are not subject to the disclosure requirements.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Risks and uncertainties:

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk.

The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Bank's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank.

The Bank is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates declined significantly. The federal banking agencies encouraged financial institutions to prudently work with borrowers and passed legislation to provide relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. The spread of COVID-19 has caused the Company to modify business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. The rapid development and fluidity of this situation precludes any predication as to the ultimate impact of the COVID-19 outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Company, its performance, and its financial results.

Revenue Recognition:

In accordance with Accounting Standards Codification ("ASC") topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. A description of the Company's revenue streams accounted for under ASC 606 follows:

Deposit service charges: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are automatically withdrawn from the customer's account balance on a daily basis.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Revenue Recognition, continued:

Debit and credit card income: The Company earns interchange fees from debit and credit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

Income and fees from automated teller machines (ATMs): The Company earns fees from its established ATM network. Fees are charged to non-customers of the Company who access the Company's network utilizing a debit card or credit card issued by another financial institution. The Company also earns fees when the Company's customers utilize the ATM network of another financial institution. Fees are recognized at the time of the transaction.

Gains/Losses on OREO Sales: Gains/losses on the sale of OREO are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Recently adopted accounting pronouncements:

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted, the Company does not expect to elect that option. The Company is evaluating the impact of the ASU on the consolidated financial statements. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted this guidance as of January 1, 2020. The amendments did not have a material effect on the Company's financial statements.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL). The new effective dates will be fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments affect a variety of Topics in the Accounting Standards Codification. For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In December 2019, the FASB issued guidance to simplify accounting for income taxes by removing specific technical exceptions that often produce information investors have a hard time understanding. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the 2020 presentation. Such reclassifications had no impact on net income or retained earnings as previously reported.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 2. Investment Securities

Securities available for sale consisted of the following:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	\$ 8,907,190	\$ 306,122	\$ -	\$ 9,213,312
Mortgage-backed securities	41,472,098	1,010,772	(9,397)	42,473,473
Corporate securities	11,782,260	550,016	-	12,332,276
	<u>\$ 62,161,548</u>	<u>\$ 1,866,910</u>	<u>\$ (9,397)</u>	<u>\$ 64,019,061</u>
	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	\$ 10,162,119	\$ 122,870	\$ -	\$ 10,284,989
Mortgage-backed securities	60,804,944	154,824	(406,339)	60,553,429
Corporate securities	11,962,556	126,338	(22,471)	12,066,423
	<u>\$ 82,929,619</u>	<u>\$ 404,032</u>	<u>\$ (428,810)</u>	<u>\$ 82,904,841</u>

The amortized costs and fair values of investment securities at December 31, 2020, by contractual maturity, are shown below. Mortgage-backed securities are classified by their contractual maturity, however, expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with and without call or prepayment penalties.

	Securities Available For Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	\$ 2,452,513	\$ 2,459,337
Due after one year but within five years	14,697,832	15,072,842
Due after five years but within ten years	19,011,063	19,816,907
Due after ten years	26,000,140	26,669,975
Total	<u>\$ 62,161,548</u>	<u>\$ 64,019,061</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 2. Investment Securities, Continued

There were no securities sold in 2020 and two securities sold in 2019. Investment securities with carrying values of approximately \$45,843,000 and \$60,785,000 at December 31, 2020 and 2019, respectively, were pledged to secure public funds on deposit and for other purposes as required by law, FHLB advances and a \$26 million line of credit at the Federal Reserve Bank discount window.

Sales of investment securities available for sale for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Proceeds	\$ -	\$ 5,366,375
Realized gains	-	169,874
Realized losses	-	(10,730)
Total investment securities gains, net	<u>\$ -</u>	<u>\$ 159,144</u>

The following tables show gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2020 and December 31, 2019.

December 31, 2020						
	Less than twelve months		Twelve months or more		Total	
		Unrealized		Unrealized		Unrealized
	Fair value	losses	Fair value	losses	Fair value	losses
Mortgage-backed securities	\$ 686,879	\$ (3,067)	\$ 169,721	\$ (6,330)	\$ 856,600	\$ (9,397)
	<u>\$ 686,879</u>	<u>\$ (3,067)</u>	<u>\$ 169,721</u>	<u>\$ (6,330)</u>	<u>\$ 856,600</u>	<u>\$ (9,397)</u>
December 31, 2019						
	Less than twelve months		Twelve months or more		Total	
		Unrealized		Unrealized		Unrealized
	Fair value	losses	Fair value	losses	Fair value	losses
Mortgage-backed securities	\$ 10,764,540	\$ (43,371)	\$ 26,558,482	\$ (362,968)	\$ 37,323,022	\$ (406,339)
Corporate securities	1,876,202	(22,471)	-	-	1,876,202	(22,471)
	<u>\$ 12,640,742</u>	<u>\$ (65,842)</u>	<u>\$ 26,558,482</u>	<u>\$ (362,968)</u>	<u>\$ 39,199,224</u>	<u>\$ (428,810)</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 2. Investment Securities, Continued

Securities classified as available for sale are recorded at fair market value. At December 31, 2020 and 2019, the Company had five and twenty-nine securities, respectively that were in an unrealized loss position for more than twelve months. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company reviews these securities for other than temporary impairment on a quarterly basis by monitoring their credit support and coverage, constant payment of the contractual principal and interest, loan to value and delinquency ratios.

The Company uses prices from third party pricing services and, to a lesser extent, indicative (non-binding) quotes from third party brokers, to measure fair value of our investment securities. Fair values of the investment securities portfolio could decline in the future if the underlying performance of the collateral for collateralized mortgage obligations or other securities deteriorates and the levels do not provide sufficient protection for contractual principal and interest. As a result, there is risk that an other-than-temporary impairment may occur in the future.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation and revenue municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Note 3. Loans Receivable and Allowance for Loan Losses

The major classification of loans receivable are summarized as follows at December 31, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Commercial, financial and agricultural	\$ 81,747	\$ 45,112
Commercial real estate	141,683	142,757
Single family residential	53,921	65,436
Construction and development	3,891	8,926
Consumer	<u>6,253</u>	<u>7,401</u>
	287,495	269,632
Allowance for loan losses	<u>3,161</u>	<u>1,631</u>
Total loans	<u>\$ 284,334</u>	<u>\$ 268,001</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

Concentrations - The Company's concentrations of credit risk are as follows:

A substantial portion of the Company's loan portfolio is collateralized by real estate in the metropolitan Atlanta and Birmingham markets. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in the metropolitan Atlanta and Birmingham areas.

- The Company's loans to area churches were approximately \$51.5 million and \$55.6 million at December 31, 2020 and 2019, respectively, which are generally secured by real estate.
- The Company's loans to area hotels were approximately \$32.7 million and \$28.5 million at December 31, 2020 and 2019, respectively, which are generally secured by real estate.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law, which established the Paycheck Protection Program (PPP). Under the program, the Small Business Administration (SBA) will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for paycheck and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. The Bank received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Bank received approximately \$1.2 million of processing fees and has recognized approximately \$600,000 during the period ended December 31, 2020. The Bank has provided \$30.2 million in funding to 327 customers through the PPP during 2020. These loans are 100% guaranteed by the SBA and did not undergo the Bank's typical underwriting process.

The SBA began accepting PPP forgiveness applications on August 10, 2020. Borrowers must submit the application within ten months of the completion of the covered period. Once the borrower has submitted the application, the Bank has 60 days to review, issue a lender decision, and submit to the SBA. Once the application is submitted, the SBA has 90 days to review and remit the appropriate forgiveness amount to the Bank plus any interest accrued through the date of payment. As of December 31, 2020, the Bank has fully processed 34 PPP forgiveness applications with a total loan balance of approximately \$7.4 million.

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), have encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. This guidance allows banks to elect not to categorize loan modifications as troubled debt restructurings (TDRs) if the modifications are related to COVID-19, executed on a loan that was not more than 30 days past due as of December 31, 2019, and executed between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the date of termination of the National Emergency. All short term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of real estate, food service, entertainment & recreation and construction loans, to borrowers negatively impacted by COVID-19. The Bank processed principal deferments to 108 customers, with an aggregate loan balance of \$75.4 million, during the period ending December 31, 2020. The principal deferments represent 26% of the Bank's total loan portfolio as of December 31, 2020. Borrowers current prior to relief, who were not experiencing financial difficulty prior to COVID-19, were determined not to be considered TDRs. Additionally, of the 108 customers that received payment accommodations, only one customer is still in deferral as of December 31, 2020, with a loan balance of approximately \$168,000.

The following is a summary of information pertaining to the Bank's allowance for loan losses at December 31, 2020 and 2019 (in thousands):

	For the year ended December 31, 2020					
	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Single-family Residential</u>	<u>Construction & Development</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 231	\$ 853	\$ 247	\$ 49	\$ 251	\$ 1,631
Provision for loan losses	870	548	29	4	259	1,710
Loans charged off	(20)	(9)	(5)	-	(238)	(272)
Recoveries on loans charged off	4	-	13	-	75	92
Ending balance	<u>\$ 1,085</u>	<u>\$ 1,392</u>	<u>\$ 284</u>	<u>\$ 53</u>	<u>\$ 347</u>	<u>\$ 3,161</u>

	For the year ended December 31, 2019					
	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Single-family Residential</u>	<u>Construction & Development</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 247	\$ 461	\$ 543	\$ 17	\$ 368	\$ 1,636
Provision for loan losses	(5)	387	(267)	32	23	170
Loans charged off	(18)	-	(43)	-	(232)	(293)
Recoveries on loans charged off	7	5	14	-	92	118
Ending balance	<u>\$ 231</u>	<u>\$ 853</u>	<u>\$ 247</u>	<u>\$ 49</u>	<u>\$ 251</u>	<u>\$ 1,631</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

Portions of the allowance for loan losses may be allocated for specific loans or portfolio segments. However, the entire allowance for loan losses is available for any loan that, in the judgment of management, should be charged-off.

In determining our allowance for loan losses, we regularly review loans for specific reserves based on the appropriate impairment assessment methodology. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. At December 31, 2020 and 2019, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. General reserves are determined using historical loss trends measured over a rolling four quarter average for consumer loans, and a three year average loss factor for commercial loans which is applied to risk rated loans grouped by FFIEC call code. For commercial loans, the general reserves are calculated by applying the appropriate historical loss factor to the loan pool. Impaired loans greater than a minimum threshold established by management are excluded from this analysis. The sum of all such amounts determines our total allowance for loan losses.

The allocation of the allowance for loan losses by portfolio segment was as follows (in thousands):

For the year ended December 31, 2020						
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Allowance for loan losses						
Specific reserves						
Impaired loans	\$ 293	\$ 137	\$ -	\$ -	\$ -	\$ 430
Total specific reserves	293	137	-	-	-	430
General reserves	792	1,255	284	53	347	2,731
Total	<u>\$ 1,085</u>	<u>\$ 1,392</u>	<u>\$ 284</u>	<u>\$ 53</u>	<u>\$ 347</u>	<u>\$ 3,161</u>
Loans outstanding						
Loans individually evaluated for impairment	\$ 2,447	\$ 3,084	\$ 310	\$ 105	\$ -	\$ 5,946
Loans collectively evaluated for impairment	79,300	138,599	53,611	3,786	6,253	281,549
Total	<u>\$ 81,747</u>	<u>\$ 141,683</u>	<u>\$ 53,921</u>	<u>\$ 3,891</u>	<u>\$ 6,253</u>	<u>\$ 287,495</u>
For the year ended December 31, 2019						
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Allowance for loan losses						
Specific reserves						
Impaired loans	\$ -	\$ 75	\$ -	\$ -	\$ -	\$ 75
Total specific reserves	-	75	-	-	-	75
General reserves	231	778	247	49	251	1,556
Total	<u>\$ 231</u>	<u>\$ 853</u>	<u>\$ 247</u>	<u>\$ 49</u>	<u>\$ 251</u>	<u>\$ 1,631</u>
Loans outstanding						
Loans individually evaluated for impairment	\$ 304	\$ 3,216	\$ 292	\$ -	\$ -	\$ 3,812
Loans collectively evaluated for impairment	44,808	139,541	65,144	8,926	7,401	265,820
Total	<u>\$ 45,112</u>	<u>\$ 142,757</u>	<u>\$ 65,436</u>	<u>\$ 8,926</u>	<u>\$ 7,401</u>	<u>\$ 269,632</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

The following is an aging analysis of the Bank's loan portfolio at December 31, 2020 and 2019 (in thousands):

December 31, 2020									
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing	Nonaccrual	
Residential									
First mortgages	\$ 782	\$ 470	\$ 1,523	\$ 2,775	\$ 33,683	\$ 36,458	\$ -	\$ 1,609	
HELOC's and equity	-	-	83	83	17,380	17,463	-	110	
Commercial									
Secured	1	-	173	174	77,371	77,545	-	221	
Unsecured	-	-	-	-	4,202	4,202	-	-	
Commercial real estate									
Owner occupied	536	29	529	1,094	69,864	70,958	-	1,478	
Non-owner occupied	271	-	-	271	62,211	62,482	-	271	
Multifamily	-	-	-	-	8,243	8,243	-	-	
Construction and development									
Construction	-	-	-	-	2,645	2,645	-	-	
Improved land	-	-	-	-	1,246	1,246	-	-	
Consumer and other	2	9	7	18	6,235	6,253	-	61	
	<u>\$ 1,592</u>	<u>\$ 508</u>	<u>\$ 2,315</u>	<u>\$ 4,415</u>	<u>\$ 283,080</u>	<u>\$ 287,495</u>	<u>\$ -</u>	<u>\$ 3,750</u>	
December 31, 2019									
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing	Nonaccrual	
Residential									
First mortgages	\$ 580	\$ 995	\$ 582	\$ 2,157	\$ 48,655	\$ 50,812	\$ -	\$ 686	
HELOC's and equity	-	-	151	151	14,473	14,624	-	151	
Commercial									
Secured	50	200	10	260	39,311	39,571	-	10	
Unsecured	-	-	-	-	5,541	5,541	-	-	
Commercial real estate									
Owner occupied	1,371	254	1,145	2,770	71,483	74,253	-	1,445	
Non-owner occupied	291	21	-	312	61,565	61,877	-	-	
Multifamily	-	-	-	-	6,627	6,627	-	-	
Construction and development									
Construction	-	-	-	-	8,688	8,688	-	-	
Improved land	-	-	-	-	238	238	-	-	
Consumer and other	53	-	34	87	7,314	7,401	-	34	
	<u>\$ 2,345</u>	<u>\$ 1,470</u>	<u>\$ 1,922</u>	<u>\$ 5,737</u>	<u>\$ 263,895</u>	<u>\$ 269,632</u>	<u>\$ -</u>	<u>\$ 2,326</u>	

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

Each of our portfolio segments and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of our loan portfolio. Management has identified the most significant risks as described below which are generally similar among our segments and classes. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

Commercial, financial and agricultural loans - We centrally underwrite each of our commercial loans based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. We endeavor to gain a complete understanding of our borrower's businesses including the experience and background of the principals. To the extent that the loan is secured by collateral, which is a predominant feature of the majority of our commercial loans, we gain an understanding of the likely value of the collateral and what level of strength the collateral brings to the loan transaction. To the extent that the principals or other parties provide personal guarantees, we analyze the relative financial strength and liquidity of each guarantor. Common risks to each class of commercial loans include risks that are not specific to individual transactions such as general economic conditions within our markets, as well as risks that are specific to each transaction including demand for products and services, personal events such as disability or change in marital status, and reductions in the value of our collateral. Due to the concentration of loans in the metro Atlanta and Birmingham areas, we are susceptible to changes in market and economic conditions of these areas.

Consumer - The installment loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

Commercial Real Estate - Real estate commercial loans consist of loans secured by multifamily housing, commercial non-owner and owner occupied and other commercial real estate loans. The primary risk associated with multifamily loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. High unemployment or generally weak economic conditions may result in our customer having to provide rental rate concessions to achieve adequate occupancy rates. Commercial owner-occupied and other commercial real estate loans are primarily dependent on the ability of our customers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a customer's business results are significantly unfavorable versus the original projections, the ability for our loan to be serviced on a basis consistent with the contractual terms may be at risk. These loans are primarily secured by real property and can include other collateral such as personal guarantees, personal property, or business assets such as inventory or accounts receivable. As such, it is possible that the liquidation of the collateral will not fully satisfy the obligation. Also, due to the concentration of loans in the metro Atlanta and Birmingham areas, we are susceptible to changes in market and economic conditions of these areas.

Single-Family Residential - Real estate residential loans are to individuals and are secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Such a decline in values led to unprecedented levels of foreclosures and losses during 2008-2012 within the banking industry.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

Construction and Development - Real estate construction loans are highly dependent on the supply and demand for residential and commercial real estate in the markets we serve as well as the demand for newly constructed commercial space and residential homes and lots that our customers are developing. Continuing deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for our customers. Real estate construction loans can experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project. Such cost overruns can routinely result in foreclosure of partially completed and unmarketable collateral.

Risk categories - The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if appropriately classified and impairment, if any. All other loan relationships greater than \$750,000 are reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will evaluate the loan grade.

Loans excluded from the scope of the annual review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged off. The Company uses the following definitions for risk ratings:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

The following is an analysis of the Bank's loan portfolio by risk rating at December 31, 2020 and 2019 (in thousands):

December 31, 2020					
	Total	Pass Credits	Special Mention	Substandard	Doubtful
Single family residential					
First mortgages	\$ 36,458	\$ 34,739	\$ -	\$ 1,719	\$ -
HELOC's and equity	17,463	17,436	-	27	-
Commercial, financial, and agricultural					
Secured	77,545	73,983	242	3,320	-
Unsecured	4,202	4,202	-	-	-
Commercial real estate					
Owner occupied	70,958	67,022	2,664	1,272	-
Non-owner occupied	62,482	62,389	29	64	-
Multifamily	8,243	8,243	-	-	-
Construction and development					
Construction	2,645	2,540	-	105	-
Improved land	1,246	1,246	-	-	-
Consumer	6,253	6,192	-	61	-
Total	<u>\$ 287,495</u>	<u>\$ 277,992</u>	<u>\$ 2,935</u>	<u>\$ 6,568</u>	<u>\$ -</u>
December 31, 2019					
	Total	Pass Credits	Special Mention	Substandard	Doubtful
Single family residential					
First mortgages	\$ 50,812	\$ 48,716	\$ -	\$ 2,096	\$ -
HELOC's and equity	14,624	14,606	-	18	-
Commercial, financial, and agricultural					
Secured	39,571	37,773	294	1,504	-
Unsecured	5,541	5,541	-	-	-
Commercial real estate					
Owner occupied	74,253	70,042	2,702	1,509	-
Non-owner occupied	61,877	61,783	33	61	-
Multifamily	6,627	6,627	-	-	-
Construction and development					
Construction	8,688	8,688	-	-	-
Improved land	238	238	-	-	-
Consumer	7,401	7,347	-	34	20
Total	<u>\$ 269,632</u>	<u>\$ 261,361</u>	<u>\$ 3,029</u>	<u>\$ 5,222</u>	<u>\$ 20</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

The following is an analysis of the Bank's impaired loans that were evaluated for specific loss allowance at December 31, 2020 and 2019 (in thousands):

December 31, 2020							
	Impaired Loans With Allowance			Impaired Loans With no Allowance			Interest Income Recognized
	Unpaid Principal	Recorded Investment	Allowance For Loan Losses Allocated	Unpaid Principal	Recorded Investment	Average Recorded Investment	
Residential							
First mortgages	\$ -	\$ -	\$ -	\$ 364	\$ 310	\$ 335	\$ 60
HELOC's and equity	-	-	-	-	-	-	-
Commercial							
Secured	2,447	2,447	293	-	-	2,455	-
Unsecured	-	-	-	-	-	-	-
Commercial real estate							
Owner occupied	1,029	884	137	2,408	2,200	2,950	126
Non-owner occupied	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Construction and development							
Construction	-	-	-	140	105	105	7
Improved land	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	<u>\$ 3,476</u>	<u>\$ 3,331</u>	<u>\$ 430</u>	<u>\$ 2,912</u>	<u>\$ 2,615</u>	<u>\$ 5,845</u>	<u>\$ 193</u>

December 31, 2019							
	Impaired Loans With Allowance			Impaired Loans With no Allowance			Interest Income Recognized
	Unpaid Principal	Recorded Investment	Allowance For Loan Losses Allocated	Unpaid Principal	Recorded Investment	Average Recorded Investment	
Residential							
First mortgages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
HELOC's and equity	-	-	-	325	292	308	15
Commercial							
Secured	-	-	-	454	304	303	18
Unsecured	-	-	-	-	-	-	-
Commercial real estate							
Owner occupied	1,697	1,697	75	1,573	1,446	3,077	133
Non-owner occupied	-	-	-	118	73	81	8
Multifamily	-	-	-	-	-	-	-
Construction and development							
Construction	-	-	-	-	-	-	-
Improved land	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	<u>\$ 1,697</u>	<u>\$ 1,697</u>	<u>\$ 75</u>	<u>\$ 2,470</u>	<u>\$ 2,115</u>	<u>\$ 3,769</u>	<u>\$ 174</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Loans Receivable and Allowance for Loan Losses, Continued

Troubled debt restructurings:

The Bank identified TDRs as certain loans for which the allowance for loan losses had previously been measured under a general allowance methodology. Upon identifying those loans as TDRs, and assuming that the credit is greater than \$50 thousand (in accordance with Bank policy), the Bank identified them as impaired under the guidance in ASC 310-10-35.

During the year ended December 31, 2020 the Bank did not identify any loans which were identified as TDRs due to modifications of loan terms. During the year ended December 31, 2019 the Bank identified three loans, totaling approximately \$700,000, to be TDRs. During the years ended December 31, 2020 and 2019 no loans previously identified as TDRs went into default (as defined by non-accrual classification).

The following table summarizes the carrying balance of TDRs as of December 31, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Performing TDRs	\$ 2,622	\$ 3,123
Nonperforming TDRs	<u>367</u>	<u>254</u>
Total TDRs	<u>\$ 2,989</u>	<u>\$ 3,377</u>

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by performing the usual process for all loans in determining the allowance for loan loss. The Company considers a default as failure to comply with the restructured loan agreement. This would include the restructured loan being past due greater than 90 days, failure to comply with financial covenants, or failure to maintain current insurance coverage or real estate taxes after the loan restructured date.

Note 4. Premises and Equipment

Premises and equipment consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,212,250	\$ 2,250,250
Buildings and improvements	8,471,938	10,149,810
Furniture and equipment	<u>11,315,537</u>	<u>11,209,024</u>
Total	21,999,725	23,609,084
Less accumulated depreciation	<u>(14,845,262)</u>	<u>(16,274,766)</u>
Premises and equipment, net	<u>\$ 7,154,463</u>	<u>\$ 7,334,318</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was approximately \$606,000 and \$655,000, respectively. Proceeds from the sale of premises and equipment resulting from two branch locations being sold were approximately \$657,000 for the year ended December 31, 2020, with a resulting gain recognized of approximately \$183,000. There were no sales of premises and equipment during 2019.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 5. Deposits

The following is a summary of interest-bearing deposits at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
NOW and money market accounts	\$ 148,365,343	\$ 100,362,375
Savings accounts	58,357,508	48,227,235
Time deposits of \$250,000 or more	55,731,614	54,127,882
Other time deposits	<u>52,643,667</u>	<u>49,322,491</u>
	<u>\$ 315,098,132</u>	<u>\$ 252,039,983</u>

The Company participates in the Certificate of Deposit Account Registry Services ("CDARS"), a program that allows its customers the ability to benefit from the FDIC insurance coverage on their time deposits over the \$250,000 limit. The Company had approximately \$23,676,000 and \$18,817,000 in CDARS deposits at December 31, 2020 and 2019, respectively.

At December 31, 2020, the scheduled maturities of time deposits were as follows:

2021	\$ 95,520,168
2022	5,833,341
2023	3,274,090
2024	1,579,864
2025 and thereafter	<u>2,167,818</u>
	<u>\$ 108,375,281</u>

Note 6. Other Borrowings

Note payable:

The Company had \$1,150,000 and \$1,550,000 outstanding under an unsecured \$2,000,000 revolving line of credit as of December 31, 2020 and 2019, respectively. The line of credit matures on September 8, 2022 and bears interest at a fixed rate of 5.00% with quarterly required principal payments of \$50,000 plus accrued interest.

Federal Home Loan Bank Advances:

In August 2006, the Company received an Affordable Housing Program Award ("AHP") in the amount of \$400,000. The AHP is a principal reducing credit with an interest rate of 0% at December 31, 2020 and 2019, and had a remaining balance of approximately \$132,000 and \$153,000, respectively. These advances are collateralized by FHLB stock, a blanket lien on the Bank's 1-4 family mortgages, and certain commercial real estate loans and investment securities. As of December 31, 2020 and 2019, total loans pledged to FHLB as collateral were approximately \$37,500,000 and \$58,850,000, respectively.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 6. Other Borrowings, Continued

Federal Home Loan Bank Advances, continued:

As of December 31, 2020 and 2019, maturities of the Company's Federal Home Loan Bank Advances are as follows:

<u>Maturity</u>	<u>Rate</u>	<u>2020</u>	<u>2019</u>
August 2026 ⁽¹⁾	0.00%	\$ 131,791	\$ 153,205
		<u>\$ 131,791</u>	<u>\$ 153,205</u>

⁽¹⁾ This advance represents an AHP award used to subsidize loans for homeownership or rental initiatives. The AHP is a principal reducing credit, scheduled to mature on August 17, 2026 with an interest rate of zero.

At December 31, 2020, the Company has a \$134.2 million line of credit facility at the FHLB of which \$37.5 million was used for an advance of \$132 thousand and a letter of credit to secure public deposits in the amount of \$36 million. The Company also had \$25.8 million of borrowing capacity at the Federal Reserve Bank discount window. This borrowing capacity is collateralized by commercial real estate, construction, and consumer loans. As of December 31, 2020 and 2019 total pledged loans to the Federal Reserve Bank were approximately \$40,029,000 and \$34,380,000, respectively. Additionally, the Company has an unsecured \$6.0 million fed funds line of credit.

Note 7. Income Taxes

Income tax expense is summarized as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Current tax expense	\$ 2,049,449	\$ 974,481
Deferred tax expense	<u>(475,327)</u>	<u>28,140</u>
Total income tax expense	<u>\$ 1,574,122</u>	<u>\$ 1,002,621</u>

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for the years ended December 31, 2020 and 2019 to income before income taxes follows:

	<u>2020</u>	<u>2019</u>
Tax expense at statutory rate	\$ 1,426,491	\$ 997,717
State income taxes, net of federal benefit	222,695	143,044
Tax exempt interest income, net of disallowed interest expense	(73,988)	(100,268)
Cash surrender value of life insurance income	(57,708)	(57,061)
Impact of federal rate change on deferred taxes	(12,090)	18,959
Other	<u>68,722</u>	<u>230</u>
Total	<u>\$ 1,574,122</u>	<u>\$ 1,002,621</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 7. Income Taxes, Continued

The components of the net deferred tax asset is as follows as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Net operating losses and credits	\$ -	\$ 59,610
Loans, principally due to difference in allowance for loan losses and deferred loan fees	811,086	331,816
Nonaccrual loan interest	11,655	11,568
Postretirement benefit accrual, deferred compensation	1,029,988	920,056
Other real estate owned	49,780	49,412
Premises and equipment	-	37,163
Deferred Revenue	146,350	-
Leases	101,644	-
Other	<u>205,351</u>	<u>284,555</u>
Gross deferred tax assets	2,355,854	1,694,180
Deferred tax liabilities		
Net unrealized gain on securities available for sale	362,263	9,188
Premises and equipment	40,095	-
Leases	-	10,243
Other	<u>209,723</u>	<u>53,228</u>
Gross deferred tax liabilities	<u>612,081</u>	<u>72,659</u>
Net deferred tax asset	<u>\$ 1,743,773</u>	<u>\$ 1,621,521</u>

The Company has no net operating loss carryforwards for federal or state income tax purposes at December 31, 2020. Management currently considers it more likely than not that all related deferred tax assets will be realized; thus, no valuation allowance has been provided.

Tax returns for 2017 and subsequent years are subject to examination by taxing authorities.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 8. Employee Benefits

Defined contribution plan:

The Company sponsors a defined contribution 401(k) plan covering substantially all full-time employees. Employee contributions are voluntary. The Company matches 50% of the employee contributions up to a maximum of 6% of compensation. During each of the years ended December 31, 2020 and 2019, the Company recognized approximately \$173,000 and \$151,000 in expenses related to this plan, respectively. The Bank previously had Post Retirement Benefit Plans that provided retirement benefits to certain officers, board members, certain former officers, and former board members. The Bank also has a Life Insurance Endorsement Method Split Dollar Plan ("Split Dollar Life Insurance Plan") for the same participants which provided death benefits for their designated beneficiaries through an endorsement of a portion of the death benefit otherwise payable to the Bank. Under the Post Retirement Benefit and Split Dollar Life Insurance Plans ("The Plans"), the Board purchased life insurance contracts on certain participants. During 2008, the Bank discontinued participation in The Plans and converted certain key officers and active board members into a defined Supplemental Retirement Benefit Plans ("SERP") and certain key officers into a Life Insurance Bonus Plan ("The Bonus Plan"). Upon completion of the conversion, most key officers and active Board members participating in the Split Dollar Life Insurance Plan surrendered their interest in the death benefit portion of the plan.

For the SERP and the Post Retirement Benefit Plans, the Company recognized approximately \$421,000 and \$402,000 in 2020 and 2019, respectively, in noninterest expenses. The Company recognized approximately \$275,000 and \$272,000 in 2020 and 2019, respectively, in noninterest income related to the insurance contracts. For the Bonus Plan, the Company incurred expenses of approximately \$53,000 in 2020 and in 2019.

The increase in cash surrender value for the contracts on those participants remaining in the Post Retirement Benefit Plan, less the Bank's premiums, constitutes the Bank's contribution to the Post Retirement Benefit Plans each year. In the event the insurance contracts fail to produce positive returns, the Bank has no obligation to contribute to the Post Retirement Benefit Plan. At December 31, 2020 and 2019, the cash surrender value of these insurance contracts was approximately \$11.1 million and \$10.9 million, respectively.

Note 9. Commitments and Contingencies

Credit commitments and commercial letters:

The Company, in the normal course of business, is a party to financial instruments with off-balance sheet risk used to meet the financing needs of its customers. These financial instruments include commitments to extend credit and commercial letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and residential and commercial real estate. Commercial letters of credit are commitments issued by the Company to guarantee funding to a third party on behalf of a customer. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 9. Commitments and Contingencies, Continued

Credit commitments and commercial letters, continued:

The Company's exposure to credit loss in the event of nonperformance by the other party of the financial instrument for commitments to extend credit and commercial letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations related to off-balance sheet financial instruments as it does for the financial instruments recorded in the Consolidated Balance Sheets.

	<u>2020</u>	<u>2019</u>
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 22,690,000	\$ 17,653,000
Commercial letters of credit	\$ 94,000	\$ 1,435,000

Leases:

As of December 31, 2020, the Company had an operating right-of-use ("ROU") asset of \$2.0 million and an operating lease liability of \$2.4 million. The lease for the Company's headquarters commenced on November 1, 2015 with a term of 12 years and 2 months. The lease requires monthly payments starting at \$26,291 for the first year, increasing 3% per year thereafter. The Company received a twenty month rent abatement as of the lease commencement. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 4.25%. As of December 31, 2020, future minimum lease payments under all noncancelable lease agreements inclusive of sales tax and maintenance costs for the next five years and thereafter are as follows:

2021	\$ 367,164
2022	376,325
2023	385,679
2024	395,337
2025 and thereafter	<u>1,246,233</u>
Total undiscovered lease payments	\$ 2,770,738
Less: effect of discounting	<u>414,850</u>
Present value of estimated lease payments	<u>\$ 2,355,888</u>

Rent expense in 2020 and 2019 was approximately \$340,000 and \$342,000, respectively, and was recorded in occupancy and equipment expense within the Consolidated Statements of Income.

Legal:

The Company has been named as a defendant in legal actions arising from their normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, any such liability will not have a material effect on Company's consolidated financial statements.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 10. Net Income Per Common and Common Equivalent Share

Basic and diluted net income per common and potential common share has been calculated based on the weighted average number of shares outstanding. Nonvested restricted shares with only a vesting period as service requirement are considered to be dilutive for purposes of calculating diluted earnings per share below. The following schedule reconciles the numerators and denominator of the basic and diluted net income per common and potential common share for the years ended December 31, 2020 and 2019.

	Year ended December 31, 2020		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	\$ 5,218,693	1,998,516	\$ 2.61
Effect of dilutive securities			
nonvested restricted common shares	-	51,000	.06
Diluted earnings per share	<u>\$ 5,218,693</u>	<u>2,049,516</u>	<u>\$ 2.55</u>
	Year ended December 31, 2019		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	\$ 3,748,419	2,095,111	\$ 1.79
Effect of dilutive securities			
nonvested restricted common shares	-	148,736	.12
Diluted earnings per share	<u>\$ 3,748,419</u>	<u>2,243,847</u>	<u>\$ 1.67</u>

Note 11. Fair Value Measurements

Generally Accepted Accounting Principles ("GAAP") provide a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Fair Value Measurements, Continued

Fair value hierarchy:

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment securities available for sale: Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Impaired loans: The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2020 and 2019, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans for which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Fair Value Measurements, Continued

Other real estate owned: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy (in thousands):

		December 31, 2020			
		Total	Level 1	Level 2	Level 3
Recurring basis					
Securities available for sale					
Municipal securities	\$	9,213	\$ -	\$ 9,213	\$ -
Mortgage-backed securities		42,474	-	42,474	-
Corporate securities		12,332	-	12,332	-
Total	\$	<u>64,019</u>	<u>\$ -</u>	<u>\$ 64,019</u>	<u>\$ -</u>
Nonrecurring basis					
Impaired loans					
Commercial real estate	\$	2,947	\$ -	\$ 2,947	\$ -
Commercial		2,154	-	2,154	-
Single family residential		310	-	310	-
Construction		105	-	105	-
Other real estate owned		161	-	161	-
Total	\$	<u>5,677</u>	<u>\$ -</u>	<u>\$ 5,677</u>	<u>\$ -</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Fair Value Measurements, Continued

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Recurring basis				
Securities available for sale				
Municipal securities	\$ 10,285	\$ -	\$ 10,285	\$ -
Mortgage-backed securities	60,554	-	60,554	-
Corporate securities	12,066	-	12,066	-
Total	<u>\$ 82,905</u>	<u>\$ -</u>	<u>\$ 82,905</u>	<u>\$ -</u>
Nonrecurring basis				
Impaired loans				
Commercial real estate	\$ 3,141	\$ -	\$ 3,141	\$ -
Commercial	304	-	304	-
Single family residential	292	-	292	-
Other real estate owned	161	-	161	-
Total	<u>\$ 3,898</u>	<u>\$ -</u>	<u>\$ 3,898</u>	<u>\$ -</u>

Following are disclosures of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered an estimate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in the value of financial instruments held by the Company since purchase, origination, or issuance.

Cash, Due from Banks, Federal Funds Sold, Interest-Bearing Deposits with Banks and Certificates of Deposits - Fair value equals the carrying value of such assets due to their nature and is classified as Level 1.

Investment Securities - Fair value of investment securities is based on quoted market prices and is classified as Level 2.

Other Investments - The carrying amount of other investments approximates its fair value and is classified as Level 1.

Loans - The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Fair Value Measurements, Continued

Deposits - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed rate certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities and is classified as Level 2.

Notes Payable and Advances from Federal Home Loan Bank - The fair values of notes payable and advances from the Federal Home Loan Bank are estimated by discounting the future cash flows using the rates currently available to the Bank for debt with similar remaining maturities and terms and are classified as Level 2.

Commitments to Extend Credit and Commercial Letters of Credit - Because commitments to extend credit and commercial letters of credit are made using variable rates, or are recently executed, the contract value is a reasonable estimate of fair value.

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments; for example, premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Fair Value Measurements, Continued

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2020 and 2019 (in thousands):

December 31, 2020						
	Carrying Amount	Fair Value Measurements				
		Total	Level 1	Level 2	Level 3	
Financial assets						
Cash and due from banks	\$ 1,850	\$ 1,850	\$ 1,850	\$ -	\$ -	-
Federal funds sold	36,930	36,930	36,930	-	-	-
Interest-bearing deposits with banks	156,662	156,662	156,662	-	-	-
Certificates of deposit	850	850	850	-	-	-
Investment securities	64,019	64,019	-	64,019	-	-
Other investments	770	770	770	-	-	-
Loans, net	284,334	285,313	-	285,313	-	-
Financial liabilities						
Deposits	\$ 510,381	\$ 513,351	\$ 404,747	\$ 108,604	\$ -	-
Notes payable	1,150	1,150	\$ -	\$ 1,150	-	-
Advances from Federal Home Loan Bank	132	132	\$ -	\$ 132	-	-
	Notional Amount	Estimated Fair Value				
Off-balance-sheet financial instruments						
Commitments to extend credit	\$ 22,690	\$ 22,690				
Commercial letters of credit	94	94				

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Fair Value Measurements, Continued

December 31, 2019						
	Carrying Amount	Fair Value Measurements				
		Total	Level 1	Level 2	Level 3	
Financial assets						
Cash and due from banks	\$ 2,103	\$ 2,103	\$ 2,103	\$ -	\$ -	-
Federal funds sold	12,821	12,821	12,821	-	-	-
Interest-bearing deposits with banks	24,611	24,611	24,611	-	-	-
Certificates of deposit	850	850	850	-	-	-
Investment securities	82,905	82,905	-	82,905	-	-
Other investments	763	763	763	-	-	-
Loans, net	268,001	267,547	-	267,547	-	-
Financial liabilities						
Deposits	\$ 361,358	\$ 362,643	\$ 258,638	\$ 104,005	\$ -	-
Notes payable	1,550	1,550	-	1,550	-	-
Advances from Federal Home Loan Bank	153	153	-	153	-	-
	<u>Notional Amount</u>	<u>Estimated Fair Value</u>				
Off-balance-sheet financial instruments						
Commitments to extend credit	\$ 17,653	\$ 17,653				
Commercial letters of credit	2,219	2,219				

Note 12. Stockholders' Equity

Capital Adequacy - The Company and the Bank are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, the Company meets all capital adequacy requirements to which it is subject.

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 12. Stockholders' Equity, Continued

As of December 31, 2020, the Bank was considered “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table.

The Company’s and the Bank’s actual capital amounts and ratios are also presented in the table below (in thousands):

December 31, 2020	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Consolidated	\$ 53,704	18.5%	\$ 23,275	8.0%	N/A	N/A
Bank	51,404	17.7%	23,275	8.0%	\$ 29,094	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	50,543	17.4%	13,092	4.5%	N/A	N/A
Bank	48,243	16.6%	13,092	4.5%	18,911	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	50,543	17.4%	17,456	6.0%	N/A	N/A
Bank	48,243	16.6%	17,456	6.0%	23,275	8.0%
Tier I capital (to average assets)						
Consolidated	50,543	9.2%	21,998	4.0%	N/A	N/A
Bank	48,243	8.8%	21,998	4.0%	27,497	5.0%
December 31, 2019						
Total capital (to risk-weighted assets)						
Consolidated	\$ 48,980	16.8%	\$ 23,353	8.0%	N/A	N/A
Bank	48,516	16.6%	23,353	8.0%	\$ 29,191	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	47,349	16.2%	13,136	4.5%	N/A	N/A
Bank	46,885	16.1%	13,136	4.5%	18,974	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	47,349	16.2%	17,515	6.0%	N/A	N/A
Bank	46,885	16.1%	17,515	6.0%	23,353	8.0%
Tier I capital (to average assets)						
Consolidated	47,349	11.1%	17,012	4.0%	N/A	N/A
Bank	46,885	11.0%	16,990	4.0%	21,238	5.0%

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 12. Stockholders' Equity, Continued

Dividend Limitation - The amount of dividends paid by the Bank to the Company or paid by the Company to its stockholders is limited by various banking regulatory agencies. Any such dividends will be subject to maintenance of required capital levels. The Georgia Department of Banking and Finance must approve dividend payments that would exceed 50% of the Bank's net income for the prior year to the Company.

The Company paid dividends of \$692,000 and \$1,054,000 on its common stock in 2020 and 2019, respectively. The annual dividend payout rate was \$0.35 and \$0.50 per common share in 2020 and 2019, respectively.

Basel III - Effective January 1 2015, Basel III rules on the Company and the Bank became effective and the regulation now also requires the Company to maintain a minimum amount and ratio of common equity Tier 1 capital to risk weighted assets.

Note 13. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families, and their business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. As of December 31, 2020 and 2019, the Company had related party loans totaling approximately \$14,472,000 and \$13,248,000, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately \$5,754,000 and \$5,374,000 at December 31, 2020 and 2019, respectively.

Note 14. Supplementary Income Statement Information

Components of other operating expenses in were disaggregated further for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Professional services, legal	\$ 232,024	\$ 264,435
Professional services, other	1,389,166	851,889
Stationery and supplies	88,419	129,580
Data processing	1,506,540	1,632,560
Telephone	371,089	306,820
FDIC insurance premium	156,000	102,000
Security and protection expense	262,084	268,468
Advertising and marketing	132,801	153,216
Other benefit expenses	420,578	401,735
ATM charges	244,849	232,657
Business development	103,694	220,914
Subscription dues	344,066	222,920
Other miscellaneous expenses	<u>1,138,683</u>	<u>1,391,822</u>
	<u>\$ 6,389,993</u>	<u>\$ 6,179,016</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 15. Citizens Bancshares Corporation and Subsidiary (Parent Company Only)

Presented below are the condensed statements for Citizens Bancshares Corporation and Subsidiary (Parent Company Only).

Condensed Balance Sheets

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Assets		
Cash	\$ 2,754,640	\$ 730,048
Investment in banking subsidiary	50,272,371	47,446,205
Other assets	<u>111,706</u>	<u>208,875</u>
Total assets	<u>\$ 53,138,717</u>	<u>\$ 48,385,128</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ 88,249	\$ 68,519
Note payable	1,150,000	1,550,000
Stockholders' equity	<u>51,900,468</u>	<u>46,766,609</u>
Total liabilities and stockholders' equity	<u>\$ 53,138,717</u>	<u>\$ 48,385,128</u>

Condensed Statements of Income

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Income	\$ 5,000,000	\$ 2,000,042
Expenses	<u>1,251,143</u>	<u>535,946</u>
Income before tax benefit and equity in		
undistributed earnings of banking subsidiary	3,748,857	1,464,096
Income tax benefit	<u>111,857</u>	<u>147,452</u>
Income before equity in undistributed earnings of the subsidiary	3,860,714	1,611,548
Equity in undistributed earnings of the subsidiary	<u>1,357,979</u>	<u>2,136,871</u>
Net income	<u>\$ 5,218,693</u>	<u>\$ 3,748,419</u>

Citizens Bancshares Corporation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 15. Citizens Bancshares Corporation and Subsidiary (Parent Company Only), Continued

Condensed Statements of Cash Flows

	<u>For the years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Operating activities		
Net income	\$ 5,218,693	\$ 3,748,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of banking subsidiary	(1,357,979)	(2,136,871)
Restricted stock based compensation plan	222,470	215,452
Change in other assets	97,169	718,603
Change in other liabilities	19,730	(6,754)
Net cash provided by operating activities	<u>4,200,083</u>	<u>2,538,849</u>
Financing activities		
Payment on note payable	(400,000)	(150,000)
Common stock dividend paid	(692,478)	(1,053,633)
Purchase of treasury stock	<u>(1,083,013)</u>	<u>(831,251)</u>
Net cash used in financing activities	<u>(2,175,491)</u>	<u>(2,034,884)</u>
Net increase in cash	2,024,592	503,965
Cash, beginning of year	<u>730,048</u>	<u>226,083</u>
Cash, end of year	<u>\$ 2,754,640</u>	<u>\$ 730,048</u>

Note 16. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Other than the transaction identified below, management has reviewed events occurring through April 12, 2021, the date the financial statements were available to be issued and noted no items requiring accrual or disclosure.

During February 2021, the Company sold 5,000 shares of Series D Preferred Stock. Dividends on the Series D Preferred Stock are not cumulative and holders of the Series D Preferred Stock are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase price per share. During March 2021, the Company sold 7,000 shares of Series E Preferred Stock. Dividends on the Series E Preferred Stock are not cumulative and holders of the Series E Preferred Stock are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase price per share.

Stockholders Information

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www.ctbconnect.com
678.406.4000

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Corporation
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Atlanta, Georgia 30343

Notice of Annual Meeting
May 26, 2021, 11:00 a.m. ET
Citizens Trust Bank
Corporate Headquarters
230 Peachtree Street, NW
Suite 2700
Atlanta, Georgia 30303

Transfer Agency
Computershare
Investor Services
1.800.568.3476
250 Royall Street
Canton, Massachusetts 02021

Board of Directors of Citizens Bancshares Corporation

RAY M. ROBINSON

Chairman of the Board
Citizens Bancshares Corporation
President Emeritus
East Lake Golf Club
Vice Chairman
East Lake Community Foundation

CYNTHIA N. DAY

President and CEO
Citizens Trust Bank

ROBERT L. BROWN, JR.

President
R.L. Brown & Associates

STEPHEN A. ELMORE, SR.

Managing Principal
Elmore CPAs, LLC

C. DAVID MOODY, JR.

Chief Executive Officer
C.D. Moody Construction
Company, Inc.

H. JEROME RUSSELL, JR.

President
H.J. Russell and Company
New Urban Development, LLC

JAMES E. WILLIAMS

President
Williams Communications System

Principal Officers of Citizens Trust Bank

CYNTHIA N. DAY

President and Chief Executive Officer

SAMUEL J. COX

Executive Vice President/ Chief Financial Officer

FREDERICK L. DANIELS, JR.

Executive Vice President/Chief Credit Officer

FARRAND O. LOGAN

Executive Vice President/ Chief Lending Officer/
Director of Sales and Business Development

JASON A. EPPENGER

Alabama Market President

IRIS D. GOODLY

Senior Vice President/Director of Client Services
and Operations

WANDA F. NESBIT

Senior Vice President/Human Resources Director, CBM



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Rockbridge

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Stone Mountain, GA 30087

Westside

Main Office

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ALABAMA

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Eutaw

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Eutaw, AL 35462

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