2018 ANNUAL REPORT

Driven to Excel

CITIZENS BANCSHARES CORPORATION

SINCE 1921

MAKING HISTORY:
WHEN VISION MEETS REALITY

Our vision to excel continues to drive us forward to make an impact on the sustaining financial health of our communities, its citizens, our company, and all that has been entrusted to us. In 2018 some highlights of the successes achieved include:

HISTORIC PRE-TAX EARNINGS:

32%

YEAR OVER YEAR GROWTH

HISTORICAL LENDING:

$261MM

IN LOANS ENHANCING DESERVING COMMUNITIES

COMMUNITY IMPACT:

IN PARTNERSHIP WITH OVER

200

COMMUNITY ORGANIZATIONS

DELIVERED THE CITIZENS TRUST BANK MISSION OF FINANCIAL FREEDOM TO OVER

9,500

COMMUNITY CITIZENS

Financials

Selected Financial Data for Citizens Bancshares Corporation & Subsidiary

Years ended December 31, (amounts in thousands, except per share data and financial ratios)	**2018**	**2017**	**2016**
STATEMENT OF INCOME DATA:			
Net interest income	$14,812	$13,848	$12,079
Provision for (recovery of) loan losses	—	—	$(63)
Income before income tax expense	$5,074	$3,831	$2,737
Net income	$3,950	$1,612	$2,031
Net income available to common shareholders	$3,950	$1,479	$1,936
PER SHARE DATA:			
Net income per common share - basic	$1.88	$0.69	$0.88
Net income per common share - basic (excluding impact of change in tax rate)	$1.88	$1.23	$0.88
Book value per common share	$20.32	$19.15	$18.31
Cash dividends paid per common share	$0.25	$0.08	$0.08
BALANCE SHEET DATA:			
Loans, net of unearned income	$260,919	$246,968	$209,970
Deposits	$347,634	$372,252	$338,823
Advances from Federal Home Loan Bank	$13,174	$10,195	$5,215
Total assets	$410,584	$429,113	$395,768
Average stockholders' equity	$40,442	$46,742	$51,915
Average assets	$406,424	$412,381	$406,575
RATIOS:			
Income before income tax expense to average assets	1.25%	0.93%	0.67%
Net income to average assets	0.97%	0.39%	0.50%
Net income available to common shareholders to average assets	0.97%	0.36%	0.48%
Net income to average shareholders equity	9.77%	3.45%	3.91%
Net income available to common shareholders to average stockholders' equity	9.77%	3.16%	3.73%
Dividend payout ratio per common share	13.31%	11.82%	8.97%
Average stockholders' equity to average assets	9.95%	11.33%	12.77%
Tier 1 capital ratio (to risk weighted assets)	16%	15%	17%
Total capital ratio	17%	15%	18%

Shareholders Message

2018 was a history making year for Citizens Bancshares Corporation. We added value to our customers, shareholders, community, and our team. Providing this level of performance for all of our stakeholders not only made us proud but was extremely rewarding as well.

Financial Highlights

Citizens Bancshares Corporation's wholly-owned subsidiary, Citizens Trust Bank, was the success behind the performance. **History making:** This was the theme of the year supported by several noteworthy achievements, at the bank level, including:

- Historic Earnings: 29% YOY growth in pre-tax income to $5.6 million in 2018
- Historic Return on Assets: 1.07%
- Historic Return on Equity: 10.62%
- Historic Asset Quality Metrics

In a highly digital and evolving environment, moving into 2019 our number one priority remains our customer.

Other performance items to note include: 1) a 6% or $14 million growth in loans, 2) a decline of approximately $24 million in deposits resulting from a decision to release high cost, out of market deposits and 3) a withdrawal of an $18 million short-term deposit from a long-term customer placed at the end of 2017 that was withdrawn in early 2018. The resulting impact was an $18 million decline in total assets.

During 2018, we also made significant capital improvements to our branch facilities to ensure they represent the spirit and brand of our Company.

We are proud of our execution of key initiatives. Our strong performance has been driven by our strategy to enhance the financial well-being of our customers, our shareholders, our team, and the communities we serve. We made significant strides positioning our Company for future growth and continued forward momentum.

In a highly digital and evolving environment, moving into 2019 our number one priority remains our customer. Our goal is to help them achieve their life goals by providing options for healthy financial living. Engaged at every organizational level, we will deliver on our promise through our strategic commitments. Our commitment centers on:

1. **Customer Engagement**
2. **Customer Experience**
3. **Innovative Solutions**
4. **Inspired People**
5. **Community Impact**

We believe that taking care of our customers and community through personalized engagement: we create a win for everyone, we enhance our performance and we enable our ability to remain a valued partner.

We believe that taking care of our customers and community through personalized engagement: we create a win for everyone...

Customer Engagement and Experience

From utilizing research to better define how to best engage our customers, to leveraging technology to create efficiencies in our service delivery, we are striving to ensure that every customer experience with us is meaningful and pleasurable. We want our customers to understand our value proposition, and we will solicit their feedback to ensure we are getting it right.

For the upcoming year, in order to grow and retain deposits, we will place a tremendous emphasis on this promise as deposit rates rise and liquidity in the market tightens.

Innovative Solutions

In today's marketplace, innovation in engaging the customer isn't an option but a necessity. We are continuously seeking new and better ways to enhance our customer's experience. In a community bank innovation and technology can be costly, so engaging the right strategic partners is key. We are intentional and deliberate in pursuing partners that align with and can deliver in support of our strategic initiatives in an efficient way.

With 22% of our new deposit accounts, 34% of consumer loans and 100% of our mortgage loan applications initiated through our website – CTBconnect.com and strong website traffic, boasting an average of 50-60,000 visits each month, digital banking is quickly becoming a very important part of our business. We must continue to make significant investments in this segment to sustain and grow in this competitive environment.

Inspired People

Over the next three to four years, skills required in the workplace are expected to change as a result of changes in digital business trends and thus impacting how we engage with our customers. These changes will require us to reimagine a workforce that aligns with our business and strategic initiatives. This will include coaching and hiring a team that represents a culture of highly motivated, high performance people that will grow with our Company. While this initiative might challenge us to evolve our team during a very tight labor market, we are optimistic that we can navigate our way through it.

Community Impact

We are committed to impacting our community through active engagement. We continue to gain success with our Financial Independence Training (FIT) program. It is our commitment to educate, motivate and inspire young people to obtain a future of healthy financial well-being.

The program has helped to lay fundamental steps necessary for future generations to build strong financial habits.

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MAKING AN IMPACT

Jaguar Foundation of Atlanta – Financial Literacy Presentation 2018

Generation Prodigy – Bank Tour 2018

Confidence is the key to financial success

Money management skills through financial education arms young adults with essential lifelong skills enabling them to manage their finances without disastrous results impacting the rest of their lives. In 2018 the bank continued its ongoing financial literacy partnership – Financial Independence Training (F.I.T.) program with fifteen-area high school communities in its markets.

Students learn to make wise financial decisions with this program using a student workbook, role play simulations, and video exercises. Practical lessons on the importance of saving regularly by budgeting as a means of achieving financial goals; basics investments; how to navigate online banking, including ATMs, debit, and chip enabled cards; online bill pay, mobile banking and mobile text banking correctly and safely; how to keep checking transactions in balance, including reconciling an account with a bank statement are all part of this program.

As of the 2017-2018 school year through the F.I.T. sponsorship and a myriad of financial literacy workshops throughout the year our bank has impacted over 7,500 young adults. We continue to take pride in preparing our young people before they begin to live independently and are in need of financial services. Helping them learn good money habits right from the start and raise their level of financial confidence will pay big dividends for them and the community long into the future.

Paving a path of positive impact: JIUS Enterprises, LLC

Being in Business means being a Difference Maker – it is an innate characteristic that most business owners possess. Daryll and Trena Tyson, owners of Jius Enterprises, LLC are no different. Providing stability through housing, one of life's basic needs has been the catalyst that continues to fuel their passion. JIUS Enterprises, LLC. created in 2008 is a residential investment real estate company focused on providing housing for low-income Atlanta-area residents.

Shortly after leaving the employ of the famed H.J. Russell & Company, the Tysons were driven to excel and started a company of their own. These Difference Makers have grown their business from a single-family home to over 25 properties in 2018. The vast majority of their real estate properties provide affordable housing options for participants of the Atlanta Housing Authority program. One property in particular is used by the Atlanta University Center as student housing.

Through their efforts, the revitalization of low-income sections of Atlanta has paved a path of positive impact in the communities they serve. From that success, JIUS Enterprises has grown in worth and purpose. Daryll and Trena now have started a second company as consultants to others wishing to provide low-income housing.

They have also widened their reach out-of-state into housing projects in New Jersey working to provide transition housing for recently released parolees and to our nation's veterans.

In like-missions of empowerment, the Tysons are trusted Citizens Trust Bank partners and remain steadfast to continue to make a difference in building relationships for years to come.

Darryl and Trena Tyson, Jius Enterprises, LLC

MAKING AN IMPACT

Jeffrey Hicks, NAREB, President and Cynthia Day, Citizens Trust Bank President & CEO – Homeownership Partnership Networking Event

Building successful partnerships – Citizens Trust Bank and National Association of Real Estate Brokers [NAREB]

In 2018, the Black homeownership rate was 42.2% which was just tenths of a percentage point higher than the same rate reported by the U.S. Census Bureau 50 years prior when the Fair Housing Act was signed into law. This troubling fact was the impetus behind the National Association of Real Estate Brokers' (NAREB) program to increase Black homeownership by two (2) million over the next five (5) years.

Like-missions of empowerment have driven us to partner with NAREB's role in galvanizing energies to lessen the wealth gap and increase homeownership potential to more of our communities' citizens. Through a series of networking events, hosted by Citizens Trust Bank at its corporate headquarters location in Atlanta and in Birmingham, Alabama, the topic Building Wealth through Homeownership was a focus in 2018.

The events provided a platform to garner support of wealth-building through homeownership from local real estate professional partnerships and further expose the benefits of a relationship with Citizens Trust Bank, its residential mortgage lending solutions and the local NAREB chapter affiliate. In 2018 through over 200 local partnerships, including homeownership workshops, we continue to increase the exposure of the Citizens Trust Bank brand, lessen the homeownership gap and increase wealth-building potential.

Home is where Love is

The homeowners we've served tell our story like no one else can. The dedicated Citizens Trust Bank Residential Mortgage Lending team remains focused on making homeownership dreams become reality. From a young couple working two jobs and raising children, to an adult hoping to gain the security and stability of owning a home for the first time, we continue to live up to the mission of enabling dreams for a greater number of people.

Meet James E. Love, a satisfied Citizens Trust Bank customer and new homeowner. Years of being a responsible renter allowed Mr. Love to develop a sense of normalcy in a house that suited his needs; and, when time presented the opportunity, through the advice of his landlord, he pursued the dream of owning the house he had come to love. However, to his dismay, through the landlord's real estate selling agent he was told that he did not meet qualifications to purchase the house. Love, visibly distraught and disappointed, shared his challenge with the local Citizens Trust Bank Client Services Relationship professionals. And, through an introduction to the Residential Mortgage Lending team his homeownership dreams came back into focus and a new trust was formed.

James E. Love, satisfied homeowner

On further discussions and investigation, the Mortgage lending team discovered that Mr. Love did in fact qualify for one of the most traditional home buying solutions which would ultimately allow him to save more of his hard-earned money than he would renting. Now, free from the burden of writing large rent checks, Mr. Love can focus on the things that are important to him, like being a homeowner for the first time in his life.

For many of the satisfied customers, Mr. Love is another example of the doors to homeownership being opened with help from Citizens Trust Bank. Steadfast to the mission we set a high priority on increasing homeownership in the communities we serve. Our goal is to deliver 300 new homeowners by 2020 and continue to support additional resources in homeowner education.

Through our efforts, homeownership dreams become reality and the sustaining economic strength of our communities are realized.

The FIT course is taught by our partner schools, and through the program we have engaged 7,789 students in and around our market. The program's success to date has exceeded our expectations and will continue as a cherished community partnership.

Leveraging the success of the FIT program, our desire is to broaden its reach. We are seeking to expand the program through partnerships with area colleges and universities, including Historically Black Colleges and Universities, throughout our market.

Impacting the community at large, we continue to sponsor customized financial well-being workshops, bank tours and special mentoring events. We trust that our outreach demonstrates our care and commitment to financial education and differentiates us as a valued partner in the community.

Driven to Excel

While we are making greater strides in evolving our Company than we envisioned even 12 months ago, we are not complacent. Every day, operating in a highly competitive, dynamic and fluid environment, brings new challenges. The key to overcoming these challenges lies in constantly setting the bar higher.

Together with our board, we regularly examine, refine, and adapt our business model, and we believe our strategic initiatives – to **engage** our customers and create pleasurable customer **experiences**; cultivate partnerships to deliver **innovative solutions** by **inspired people**; and **impact** our community in a meaningful way – will assist us in driving continued success, forward momentum and long-term value for you, our shareholders.

Let's keep making history, together!

Sincerely,

Cyntha N. Day
President and CEO
Citizens Trust Bank

and

Ray M. Robinson
Chairman of the Board
Citizens Bancshares Corporation

Citizens Bancshares Corporation and Subsidiary

Report on Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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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, 2018 and 2017, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina
April 9, 2019

Citizens Bancshares Corporation and Subsidiary

Consolidated Balance Sheets

As of December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and due from banks, including reserve requirements of $397,000 and $448,000 at December 31, 2018 and 2017, respectively	$ 1,875,985	$ 2,075,510
Federal funds sold	15,557,811	18,766,398
Interest bearing deposits with banks	12,072,887	29,882,103
Certificates of deposit	1,051,654	1,150,000
Investment securities available for sale at fair value (amortized cost of $96,205,241 and $105,591,178 at December 31, 2018 and 2017, respectively)	93,956,166	104,350,792
Other investments	1,332,450	1,175,350
Loans receivable, net of allowance for loan losses of $1,636,290 at December 31, 2018 and $1,869,954 at December 31, 2017	259,283,049	245,097,549
Premises and equipment, net	7,744,245	7,946,840
Cash surrender value of life insurance	10,662,471	10,633,638
Other real estate owned	547,812	646,350
Other assets	6,499,838	7,388,194
Total assets	$ 410,584,368	$ 429,112,724
Liabilities:		
Deposits:		
Noninterest-bearing deposits	$ 111,706,895	$ 126,649,743
Interest-bearing deposits	235,926,803	245,602,047
Total deposits	347,633,698	372,251,790
Accrued expenses and other liabilities	5,123,804	4,628,381
Notes payable	1,700,000	1,900,000
Advances from Federal Home Loan Bank	13,174,195	10,194,770
Total liabilities	367,631,697	388,974,941
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock $1 par value; 20,000,000 shares authorized; 2,287,241 and 2,265,441 shares issued and outstanding at December 31, 2018 and 2017, respectively	2,287,241	2,265,441
Nonvoting common stock, $1 par value; 5,000,000 shares authorized; 90,000 shares issued and outstanding at December 31, 2018 and 2017, respectively	90,000	90,000
Nonvested restricted common stock	(167,313)	35,310
Additional paid-in capital	8,242,470	7,803,056
Retained earnings	36,382,497	32,957,926
Treasury stock, at cost, 263,244 and 259,950 shares at December 31, 2018 and 2017, respectively	(2,174,336)	(2,092,839)
Accumulated other comprehensive loss, net of income taxes	(1,707,888)	(921,111)
Total stockholders' equity	42,952,671	40,137,783
Total liabilities and stockholders' equity	$ 410,584,368	$ 429,112,724

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2018 and 2017

	2018	2017
Interest income:		
Loans, including fees	$ 12,902,041	$ 11,435,815
Investment securities:		
Taxable	1,859,436	1,935,011
Non-taxable	471,812	665,036
Dividends	47,813	47,423
Federal funds sold	333,347	234,848
Interest-bearing deposits	292,538	269,501
Total interest income	15,906,987	14,587,634
Interest expense:		
Time deposits	971,096	675,568
Other borrowings	124,117	63,654
Total interest expense	1,095,213	739,222
Net interest income	14,811,774	13,848,412
Provision for loan losses	-	-
Net interest income after provision for loan losses	14,811,774	13,848,412
Noninterest income:		
Service charges on deposit accounts	3,678,425	3,376,463
Gains (losses) on sales of securities	-	-
Mortgage origination fees	246,023	310,470
ATM surcharges	149,512	181,640
Bank owned life insurance	269,321	275,866
Grant income	340,231	227,282
Other operating income	685,446	464,565
Total noninterest income	5,368,958	4,836,286
Noninterest expense:		
Salaries and employee benefits	7,097,195	7,050,608
Occupancy and equipment	2,185,216	2,068,458
Other real estate owned	26,563	(8,060)
Other operating expenses	5,797,684	5,742,508
Total noninterest expense	15,106,658	14,853,514
Income before income tax expense	5,074,074	3,831,184
Income taxes related to change in tax rate	-	1,162,293
Income taxes related to continuing operations	1,123,779	1,057,152
Total tax expense	1,123,779	2,219,445
Net income	3,950,295	1,611,739
Preferred dividends	-	132,243
Net income available to common stockholders	$ 3,950,295	$ 1,479,496
Net income per common share - basic	$ 1.88	$ 0.69
Net income per common share - diluted	$ 1.88	$ 0.68
Weighted average outstanding shares:		
Basic	2,101,250	2,145,808
Diluted	2,101,250	2,147,495

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017

	2018	2017
Net income	$ 3,950,295	$ 1,611,739
Other comprehensive income (loss), net of tax:		
Unrealized holding loss arising during the period, net of $221,911 for 2018 and $25,099 for 2017	(786,777)	(48,722)
Reclassification adjustment for (gains) losses included in net income	-	-
Other comprehensive loss, net of tax	(786,777)	(48,722)
Comprehensive income	$ 3,163,518	$ 1,563,017

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017

	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, 2016	7,462	$ 7,462,000	2,330,028	$ 2,330,028	90,000	$ 90,000	$ (110,551)	$ 8,623,441	$ 31,550,758	(250,030)	$ (1,990,988)	$ (769,896)	$ 47,184,792
Net income	-	-	-	-	-	-	-	-	1,611,739	-	-	-	1,611,739
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(48,722)	(48,722)
Nonvested restricted stock	-	-	-	-	-	-	145,861	(219,875)	-	-	-	-	(74,014)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(9,920)	(101,851)	-	(101,851)
Issuance of common stock	-	-	25,185	25,185	-	-	-	207,441	-	-	-	-	232,626
Stock repurchased and retired	-	-	(89,772)	(89,772)	-	-	-	(807,951)	-	-	-	-	(897,723)
Redemption of preferred stock	(7,462)	(7,462,000)	-	-	-	-	-	-	-	-	-	-	(7,462,000)
Dividends paid on preferred stock	-	-	-	-	-	-	-	-	(132,243)	-	-	-	(132,243)
Dividends paid on common stock	-	-	-	-	-	-	-	-	(174,821)	-	-	-	(174,821)
Reclassification of OCI due to tax rate change	-	-	-	-	-	-	-	-	102,493	-	-	(102,493)	-
Balance, December 31, 2017	-	-	2,265,441	2,265,441	90,000	90,000	35,310	7,803,056	32,957,926	(259,950)	(2,092,839)	(921,111)	40,137,783
Net income	-	-	-	-	-	-	-	-	3,950,295	-	-	-	3,950,295
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(786,777)	(786,777)
Nonvested restricted stock	-	-	-	-	-	-	(202,623)	219,126	-	-	-	-	16,503
Purchase of treasury stock		-	-	-	-	-	-	-	-	(3,294)	(81,497)	-	(81,497)
Issuance of common stock	-	-	21,800	21,800	-	-	-	220,288	-	-	-	-	242,088
Dividends paid on common stock	-	-	-	-	-	-	-	-	(525,724)	-	-	-	(525,724)
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

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	$ 3,950,295	$ 1,611,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	-
Depreciation	770,590	668,501
Amortization and accretion, net	449,474	600,944
Provision for deferred income taxes	841,790	1,459,457
Losses on sales of securities, net	-	-
Gain on sale of other real estate owned	(12,587)	(102,068)
Restricted stock compensation	16,503	(74,014)
Decrease in carrying value of other real estate owned	-	20,365
Increase in cash surrender value of life insurance	(28,833)	(275,866)
Change in assets and liabilities, net of acquisition:		
Change in other assets	268,478	(341,854)
Change in accrued expenses and other liabilities	495,422	83,255
Net cash provided by operating activities	6,751,132	3,650,459
Cash flows from investing activities:		
Net change in certificates of deposit	98,346	(250,000)
Proceeds from the sales, maturities and paydowns of securities available for sale	16,628,791	18,168,562
Purchases of securities available for sale	(7,692,327)	(2,539,607)
Net increase in other investments	(157,100)	(217,800)
Net increase in loans	(14,225,882)	(26,178,049)
Purchases of premises and equipment	(567,995)	(2,223,000)
Proceeds from sale of other real estate owned	151,507	1,172,372
Net cash used in investing activities	(5,764,660)	(12,067,522)
Cash flows from financing activities:		
Net cash paid for acquisition	-	(10,931,881)
Net change in deposits	(24,618,092)	33,428,418
Proceeds from note payable	-	2,000,000
Principal payments on note payable	(200,000)	(100,000)
Net increase in Federal Home Loan Bank advances	2,979,425	4,979,833
Common stock dividend paid	(525,724)	(174,821)
Preferred stock dividend paid	-	(132,243)
Net purchase of treasury stock	(81,497)	(101,851)
Redemption of preferred stock	-	(7,462,000)
Repurchase and retirement of common stock	-	(897,723)
Proceeds from issuance of common stock	242,088	232,626
Net cash provided by (used in) financing activities	(22,203,800)	20,840,358
Net increase (decrease) in cash and cash equivalents	(21,217,328)	12,423,295
Cash and cash equivalents, beginning of year	50,724,011	38,300,716
Cash and cash equivalents, end of year	$ 29,506,683	$ 50,724,011
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 990,750	$ 743,269
Income taxes	$ 135,000	$ 560,000
Supplemental schedule of non-cash investing and financing activities		
Real estate acquired through foreclosure	$ 40,382	$ 151,623
Change in unrealized gain (loss) on investment securities available for sale, net of tax	$ (786,777)	$ (48,722)

See Notes to Consolidated Financial Statements

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 and Columbus, 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 Columbus, Georgia, 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. In January 2017, the company deregistered as a SEC filer.

Acquisition:

On August 4, 2017, the Bank acquired the consumer and business deposit relationships of the First Citizens Bank of North Carolina branch located at 562 Lee Street, Atlanta, Georgia, which totaled approximately $34 million. Under the agreement, the Bank acquired approximately $45 million of mortgage loans from First Citizens Bank that were not associated with the Lee Street Branch. The acquisition of the consumer and business deposit relationships as well as the mortgage loans purchased was at par. The acquisition did not include the purchase of the physical branch facility or equipment.

Troubled Asset Relief Program:

On August 13, 2010, as part of the U.S. Department of the Treasury (the "Treasury") Troubled Asset Relief Program ("TARP") Community Development Capital Initiative, the Company entered into a Letter Agreement, and an Exchange Agreement–Standard Terms ("Exchange Agreement"), with the Treasury, pursuant to which the Company agreed to exchange 7,462 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Shares"), issued on March 6, 2009, pursuant to the Company's participation in the TARP Capital Purchase Program, for 7,462 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Shares"), both of which have a liquidation preference of $1,000 (the "Exchange Transaction"). No new monetary consideration was exchanged in connection with the Exchange Transaction. The Exchange Transaction closed on August 13, 2010 (the "Closing Date").

Note 1. Summary of Significant Accounting Policies, Continued

Troubled Asset Relief Program, continued:

On September 17, 2010, the Company issued 4,379 shares of its Series C Preferred Shares to the Treasury as part of its TARP Community Development Capital Initiative for a total of 11,841 shares of Series B and C Preferred Shares issued to the Treasury. The Series B and Series C Preferred Shares qualified as Tier 1 capital and paid cumulative dividends at a rate of 2% per annum for the first eight years after the Closing Date and 9% per annum thereafter. The issuance of the Series B and Series C Preferred Shares was a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On December 30, 2016, the Company repurchased its Series C Preferred Shares for $4,227,049, representing a $151,951 discount, and paid related accrued dividends totaling $10,948. On October 4, 2017, the Company repurchased its Series B Preferred Shares from Treasury at the par value of $7,462,000, paid related accrued dividends $20,313, and exited the TARP program.

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. This reserve requirement represents 3% of the Company's daily average demand deposit balance between $16.0 million and $122.3 million and 10% of the Company's daily average demand deposit balance above $122.3 million. The required reserve was satisfied by the Company's vault cash.

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 (the "FRB") 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.

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, 2018 or 2017.

Note 1. Summary of Significant Accounting Policies, Continued

Investment securities, continued:

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 2018 or 2017.

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 presented as a component of 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, or at the loan's observable market price, or the fair value of the collateral 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.

The Company provides for estimated losses on loans receivable when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. For loans that are pooled for purposes of determining necessary provisions, estimates are based on loan types, history of charge-offs, and other delinquency analyses. Therefore, the value used to determine the provision for losses is subject to the reasonableness of these estimates. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. This assessment is made in the context of historical losses as well as existing economic conditions, performance trends within specific portfolio segments, and individual concentrations of credit.

Loans are charged-off against the allowance when, in the opinion of management, such loans are deemed to be uncollectable and subsequent recoveries are added to the allowance.

Note 1. Summary of Significant Accounting Policies, Continued

Troubled debt restructurings:

Loans to be restructured are identified based on an assessment of the borrower's credit status, which involves, 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 ("TDR") 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 commercial 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.

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

Note 1. Summary of Significant Accounting Policies, Continued

Other real estate owned:

Other real estate owned 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, 2018 and 2017 are summarized below:

	2018	2017
Balance, beginning of year	$ 646,350	$ 1,585,396
Additions	40,382	151,623
Sales	(138,920)	(1,070,304)
Write downs	-	(20,365)
Balance, end of year	$ 547,812	$ 646,350

Goodwill:

The Company reviews the carrying value of goodwill on an annual basis and on an interim basis if certain events or circumstances indicate that an impairment loss may have been incurred. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. The carrying amount of goodwill is approximately $362,000 as of December 31, 2018 and 2017, respectively, and is included in other assets within 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. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

Note 1. Summary of Significant Accounting Policies, Continued

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 stock options and nonvested restricted stock grants. Common share equivalents which are anti-dilutive are excluded from the calculation of diluted EPS. The dilutive effect of options and restricted stock are calculated through the treasury stock method.

Stock based compensation:

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes valuation model. Expected volatility is based on the historical volatility of the Company's stock, using daily price observations over the expected term of the stock options. The expected term represents the period of time that stock options granted are expected to be outstanding and is derived from historical data which is used to evaluate patterns such as stock option exercise and employee termination. The expected dividend yield is based on recent dividend history. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant based on the expected life of the option.

There were no options granted in 2018 and 2017.

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 will vest 100% (cliff vesting) on January 1, 2020. In addition, an employee was issued 210 discretionary nonvested restricted shares of common stock at a grant price of $9.25. These restricted common stock shares will vest 100% (Cliff vesting) on January 1, 2019.

In 2018, 16,000 nonvested restricted shares of common stock were issued to certain officers and the Chief Executive Officer (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 will 100% (cliff vesting) on January 1, 2019.

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 available for sale securities.

Note 1. Summary of Significant Accounting Policies, Continued

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.

In accordance with the Company’s adoption of Accounting Standards Update “ASU” 2016-01, the Company measured the fair value of its loan portfolio as of December 31, 2018 using an exit price notion and will continue to, prospectively.

New 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance was effective for the Company for reporting periods beginning after December 15, 2017. The Company applied the guidance using a modified retrospective approach. The Company’s revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of our revenues were not affected. The Company has performed an assessment of our revenue contracts related to revenue streams that are within the scope of the standard. Our accounting policies have not changed materially since the principles of revenue recognition from the ASU are largely consistent with existing guidance and current practices applied by our businesses. We have not identified material changes to the timing or amount of revenue recognition.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 was effective for the Company for reporting periods beginning after December 15, 2017. The Company applied the guidance using a modified retrospective approach. These amendments had no material effect on the Company’s financial statements.

Note 1. Summary of Significant Accounting Policies, Continued

<u>*New accounting pronouncements, continued:*</u>

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company applied the guidance as of the beginning of the fiscal year 2018. The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption of the amendments. These amendments had no material effect on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 applies a right-of-use ("ROU") model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. For public business entities, the amendments in ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018. We adopted the guidance using the modified retrospective approach as of January 1, 2019 and elected the practical expedients for transition including the transition option provided in ASU 2018-11. The practical expedients allow us to largely account for our existing operating leases consistent with current guidance except for the incremental balance sheet recognition for leases. The Company expects that the adoption of ASU 2016-02 will result in the recognition of right-of-use assets and lease liabilities totaling $2.3 million to $2.8 million. Therefore, the Company expected the provisions of ASU No. 2016-02 to have an immaterial impact on the Company's regulatory capital ratios.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations. The updates to the principal versus agent guidance: (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer and (iii) clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances. The Company's revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. A description of the Company's revenue streams accounted for under ASC 606, Revenue from contracts with customers 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.

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements, 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.

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, 2020. 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 beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the ASU on our consolidated financial statements. We expect the ASU will have no material impact on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. 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 August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments were effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. These amendments had no material effect on the Company's financial statements.

In October 2016, the FASB amended the Income Taxes topic of the Accounting Standards Codification to modify the accounting for intra-entity transfers of assets other than inventory. The amendments were effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. These amendments had no material effect on the Company's financial statements.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments were effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. These amendments had no material effect on the Company's financial statements.

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

In March 2017, the FASB amended the requirements in the Compensation—Retirement Benefits Topic of the Accounting Standards Codification related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective for the Company for interim and annual periods beginning after December 15, 2017. These amendments had no material effect on the Company's financial statements.

In March 2017, the FASB amended the requirements in the Receivables—Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2017, the FASB amended the requirements in the Compensation—Stock Compensation Topic of the Accounting Standards Codification related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments were effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. These amendments had no material effect on the Company's financial statements.

In February 2018, the FASB Issued (2018-02), *Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows Companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Reform Act. The Company early adopted this pronouncement as of December 31, 2017 by retrospective application to each period in which the effect of the change in the tax rate under the Tax Cuts and Jobs Act is recognized. The Company made an election to reclassify income tax effects of the Tax Reform Act, amounting to approximately $102,000, from accumulated other comprehensive income to retained earnings. The impact of the reclassification from other comprehensive income to retained earnings is included in the Statement of Changes in Stockholders' Equity for the year ended December 31, 2017.

In February 2018, the FASB amended the Financial Instruments Topic of the Accounting Standards Codification. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. These amendments had no material effect on the Company's financial statements.

In May 2018, the FASB amended the Financial Services—Depository and Lending Topic of the Accounting Standards Codification to remove outdated guidance related to Circular 202. The amendments were effective upon issuance and did not have a material effect on the financial statements.

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

In June 2018, the FASB amended the Compensation—Stock Compensation Topic of the Accounting Standards Codification. The amendments expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2018, the FASB issued guidance to amend the Financial Instruments—Credit Losses topic of the Accounting Standards Codification. The guidance aligns the implementation date of the topic for annual financial statements of nonpublic companies with the implementation date for their interim financial statements. The guidance also clarifies that receivables arising from operating leases are not within the scope of the topic, but rather, should be accounted for in accordance with the leases topic. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In December 2018, the FASB issued guidance that provides narrow-scope improvements for lessors, that provides relief in the accounting for sales, use and similar taxes, the accounting for other costs paid by a lessee that may benefit a lessor, and variable payments when contracts have lease and non-lease components. The amendments will be effective for the Company for reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standard-setting bodies are not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the 2018 presentation. Such reclassifications had no impact on net income or retained earnings as previously reported.

Note 2. Investment Securities

Securities available-for-sale consisted of the following:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State, county, and municipal securities	$ 16,278,476	$ 83,108	$ (120,180)	$ 16,241,404
Mortgage-backed securities	69,753,885	8,069	(2,209,077)	67,552,877
Corporate securities	10,172,880	16,989	(27,984)	10,161,885
	$ 96,205,241	$ 108,166	$ (2,357,241)	$ 93,956,166

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State, county, and municipal securities	$ 21,923,751	$ 330,218	$ (55,443)	$ 22,198,526
Mortgage-backed securities	76,162,369	18,152	(1,645,396)	74,535,125
Corporate securities	7,505,058	112,083	-	7,617,141
	$ 105,591,178	$ 460,453	$ (1,700,839)	$ 104,350,792

The amortized costs and fair values of investment securities at December 31, 2018, 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
	(in thousands)	
Due within one year	$ -	$ -
Due after one year but within five years	21,512	21,421
Due after five years but within ten years	23,422	22,936
Due after ten years	51,271	49,599
Total	$ 96,205	$ 93,956

Note 2. Investment Securities, Continued

There were no securities sold in 2018 and 2017. Investment securities with carrying values of approximately $62,281,000 and $78,828,000 at December 31, 2018 and 2017, respectively, were pledged to secure public funds on deposit and for other purposes as required by law, FHLB advances and a $22.2 million line of credit at the Federal Reserve Bank discount window.

The following tables show investments' 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, 2018 and December 31, 2017.

Securities Available for Sale

	December 31, 2018					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal securities	$ 1,176,674	$ (2,259)	$ 5,887,241	$ (117,921)	$ 7,063,915	$ (120,180)
Mortgage-backed securities	741,114	(3,119)	64,316,120	(2,205,958)	65,057,234	(2,209,077)
Corporate	4,991,880	(27,984)	-	-	4,991,880	(27,984)
	$ 6,909,668	$ (33,362)	$ 70,203,361	$ (2,323,879)	$ 77,113,029	$ (2,357,241)

	December 31, 2017					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal securities	$ 3,201,897	$ (32,768)	$ 2,562,169	$ (22,675)	$ 5,764,066	$ (55,443)
Mortgage-backed securities	22,624,234	(246,827)	48,831,689	(1,398,569)	71,455,923	(1,645,396)
	$ 25,826,131	$ (279,595)	$ 51,393,858	$ (1,421,244)	$ 77,219,989	$ (1,700,839)

Note 2. Investment Securities, Continued

Securities classified as available for sale are recorded at fair market value. At December 31, 2018 and 2017, the Company had sixty five and forty investment 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.

We use 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 does not intend to sell these securities and it is more likely than not that the Company will not be required to sell those securities before recovery of its amortized cost. The Company believes, based on industry analyst reports and credit ratings, that it will continue to receive scheduled interest payments as well as the entire principal balance, and the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

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, 2018 and 2017 (in thousands):

	2018	2017
Commercial, financial and agricultural	$ 45,283	$ 50,240
Commercial real estate	127,790	106,785
Single family residential	74,532	71,098
Construction and development	5,791	11,165
Consumer	7,523	7,680
	260,919	246,968
Allowance for loan losses	1,636	1,870
Total loans	$ 259,283	$ 245,098

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 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 $52.3 million and $49.2 million at December 31, 2018 and 2017, respectively, which are generally secured by real estate.
- The Company's loans to area hotels were approximately $40.0 million and $14.8 million at December 31, 2018 and 2017, respectively, which are generally secured by real estate.

The following is a summary of information pertaining to the Bank's allowance for loans losses at December 31, 2018 and 2017 (in thousands):

	For the year ended December 31, 2018					
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Beginning balance	$ 456	$ 997	$ 406	$ 11	$ -	$ 1,870
Provision for loan losses	(215)	(533)	178	6	564	-
Loans charged off	-	(10)	(43)	-	(241)	(294)
Recoveries on loans charged off	6	7	2	-	45	60
Ending balance	$ 247	$ 461	$ 543	$ 17	$ 368	$ 1,636

	For the year ended December 31, 2017					
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Beginning balance	$ 474	$ 823	$ 324	$ 11	$ 199	$ 1,831
Provision for loan losses	-	-	-	-	-	-
Loans charged off	(38)	(50)	-	-	(238)	(326)
Recoveries on loans charged off	20	224	82	-	39	365
Ending balance	$ 456	$ 997	$ 406	$ 11	$ -	$ 1,870

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.

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

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, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. At December 31, 2018 and 2017, 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 Federal Financial Examination Council ("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, 2018					
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Allowance for loan losses:						
Specific reserves						
Impaired loans	$ -	$ 72	$ 15	$ -	$ -	$ 87
Total specific reserves	-	72	15	-	-	87
General reserves	247	389	528	17	368	1,549
Total	$ 247	$ 461	$ 543	$ 17	$ 368	$ 1,636
Loans outstanding:						
Loans individually evaluated for impairment	$ -	$ 3,623	$ 324	$ -	$ -	$ 3,947
Loans collectively evaluated for impairment	45,283	124,167	74,208	5,791	7,523	256,972
Total	$ 45,283	$ 127,790	$ 74,532	$ 5,791	$ 7,523	$ 260,919

	For the year ended December 31, 2017					
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Allowance for loan losses:						
Specific reserves						
Impaired loans	$ -	$ 275	$ 85	$ -	$ -	$ 360
Total specific reserves	-	275	85	-	-	360
General reserves	456	722	321	11	-	1,510
Total	$ 456	$ 997	$ 406	$ 11	$ -	$ 1,870
Loans outstanding:						
Loans individually evaluated for impairment	$ -	$ 4,530	$ 341	$ -	$ -	$ 4,871
Loans collectively evaluated for impairment	50,240	102,255	70,757	11,165	7,680	242,097
Total	$ 50,240	$ 106,785	$ 71,098	$ 11,165	$ 7,680	$ 246,968

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, 2018 and 2017 (in thousands):

	December 31, 2018							
	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	$ 1,850	$ 154	$ 533	$ 2,537	$ 57,872	$ 60,409	$ -	$ 758
HELOC's and equity	100	-	73	173	13,950	14,123	-	140
Commercial:								
Secured	53	215	-	268	38,765	39,033	-	-
Unsecured	-	-	-	-	6,250	6,250	-	-
Commercial real estate:								
Owner occupied	723	858	175	1,756	66,429	68,185	-	320
Nonowner occupied	58	-	280	338	53,317	53,655	-	280
Multifamily	-	-	-	-	5,950	5,950	-	-
Construction and development:								
Construction	-	-	-	-	5,785	5,785	-	-
Improved land	-	-	-	-	6	6	-	-
Unimproved land	-	-	-	-	-	-	-	-
Consumer and other	22	-	3	25	7,498	7,523	-	3
	$ 2,806	$ 1,227	$ 1,064	$ 5,097	$ 255,822	$ 260,919	$ -	$ 1,501

	December 31, 2017							
	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	$ 1,317	$ 330	$ 364	$ 2,011	$ 57,073	$ 59,084	$ -	$ 594
HELOC's and equity	46	32	113	191	11,823	12,014	-	113
Commercial:								
Secured	-	-	-	-	40,016	40,016	-	-
Unsecured	-	-	-	-	10,224	10,224	-	-
Commercial real estate:								
Owner occupied	839	39	648	1,526	59,921	61,447	-	1,145
Nonowner occupied	-	-	60	60	41,338	41,398	-	60
Multifamily	-	-	-	-	3,940	3,940	-	-
Construction and development:								
Construction	-	-	-	-	11,165	11,165	-	-
Improved land	-	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-	-
Consumer and other	18	1	61	80	7,600	7,680	-	48
	$ 2,220	$ 402	$ 1,246	$ 3,868	$ 243,100	$ 246,968	$ -	$ 1,960

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 and lease 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.

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.

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, 2018 and 2017 (in thousands):

	December 31, 2018				
	Total	Pass Credits	Special Mention	Substandard	Doubtful
Single family residential:					
First mortgages	$ 60,409	$ 60,054	$ -	$ 355	$ -
HELOC's and equity	14,123	13,709	-	414	-
Commercial, financial, and agricultural:					
Secured	39,033	39,033	-	-	-
Unsecured	6,250	6,250	-	-	-
Commercial real estate:					
Owner occupied	68,185	61,490	3,576	3,119	-
Nonowner occupied	53,655	53,258	39	358	-
Multifamily	5,950	5,950	-	-	-
Construction and: development					
Construction	5,785	5,785	-	-	-
Improved land	6	6	-	-	-
Unimproved land	-	-	-	-	-
Consumer	7,523	7,483	-	25	15
Total	$ 260,919	$ 253,018	$ 3,615	$ 4,271	$ 15

	December 31, 2017				
	Total	Pass Credits	Special Mention	Substandard	Doubtful
Single family residential:					
First mortgages	$ 59,084	$ 58,605	$ -	$ 479	$ -
HELOC's and equity	12,014	11,503	1	510	-
Commercial, financial, and agricultural:					
Secured	40,016	40,016	-	-	-
Unsecured	10,224	10,224	-	-	-
Commercial real estate:					
Owner occupied	61,447	53,655	4,610	3,182	-
Nonowner occupied	41,398	40,783	45	570	-
Multifamily	3,940	3,940	-	-	-
Construction and: development					
Construction	11,165	11,165	-	-	-
Improved land	-	-	-	-	-
Unimproved land	-	-	-	-	-
Consumer	7,680	7,667	-	1	12
Total	$ 246,968	$ 237,558	$ 4,656	$ 4,742	$ 12

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, 2018 (in thousands):

	December 31, 2018						
	Impaired Loans - With Allowance			Impaired Loans With no Allowance			
	Unpaid Principal	Recorded Investment	Allowance For Loan Losses Allocated	Unpaid Principal	Recorded Investment	Average Recorded Investment	Interest Income Recognized
Residential:							
First mortgages	$ -	$ -	$ -	$ -	$ -	$ -	$ -
HELOC's and equity	136	136	15	209	188	332	21
Commercial							
Secured	-	-	-	-	-	-	-
Unsecured	-	-	-	-	-	-	-
Commercial real estate:							
Owner occupied	782	782	72	2,647	2,512	3,424	340
Nonowner occupied	-	-	-	366	329	339	35
Multifamily	-	-	-	-	-	-	-
Construction and development:							
Construction	-	-	-	-	-	-	-
Improved land	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 918	$ 918	$ 87	$ 3,222	$ 3,029	$ 4,095	$ 396

	December 31, 2017						
	Impaired Loans - With Allowance			Impaired Loans With no Allowance			
	Unpaid Principal	Recorded Investment	Allowance For Loan Losses Allocated	Unpaid Principal	Recorded Investment	Average Recorded Investment	Interest Income Recognized
Residential:							
First mortgages	$ -	$ -	$ -	$ -	$ -	$ -	$ -
HELOC's and equity	236	215	85	125	125	348	17
Commercial							
Secured	-	-	-	-	-	-	-
Unsecured	-	-	-	-	-	-	-
Commercial real estate:							
Owner occupied	177	177	275	3,199	3,195	3,530	254
Nonowner occupied	-	-	-	1,195	1,159	1,060	34
Multifamily	-	-	-	-	-	-	-
Construction and development:							
Construction	-	-	-	-	-	-	-
Improved land	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 413	$ 392	$ 360	$ 4,519	$ 4,479	$ 4,938	$ 305

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

Troubled Debt Restructurings (TDRs)

The Bank identified as TDRs certain loans for which the allowance for loan losses had previously been measured under a general allowance methodology. Upon identifying those loans as TDRs, the Bank identified them as impaired under the guidance in ASC 310-10-35. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those loans newly identified as impaired. As of December 31, 2018, the Company did not identify any loans as TDRs under the amended guidance for which the loan was previously measured under a general allowance methodology.

During the years ended December 31, 2018 and 2017, the Bank did not identify any loans as TDRs and 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, 2018 and 2017 (in thousands):

	2018	2017
Performing TDRs	$ 2,444	$ 2,878
Nonperforming TDRs	1,005	878
Total TDRs	$ 3,449	$ 3,756

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, 2018 and 2017:

	2018	2017
Land	$ 2,250,250	$ 2,250,250
Buildings and improvement	10,100,354	9,813,489
Furniture and equipment	11,013,347	10,732,217
Total	23,363,951	22,795,956
Less accumulated depreciation	(15,619,706)	(14,849,116)
Premises and equipment, net	$ 7,744,245	$ 7,946,840

Depreciation expense for the years ended December 31, 2018 and 2017 was approximately $771,000 and $669,000, respectively.

Note 5. Deposits

The following is a summary of interest-bearing deposits at December 31, 2018 and 2017:

	2018	2017
NOW and money market accounts	$ 112,147,962	$ 106,904,220
Savings accounts	48,637,313	48,683,206
Time deposits of $250,000 or more	21,334,608	24,416,848
Other time deposits	53,806,920	65,597,773
	$ 235,926,803	$ 245,602,047

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 $19,592,000 and $19,858,000 in CDARS deposits at December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of time deposits were as follows:

2019	$ 61,728,924
2020	5,548,587
2021	3,177,619
2022	2,416,277
2023 and thereafter	2,270,121
	$ 75,141,528

Note 6. Other Borrowings

Note Payable

At December 31, 2018, the Company had $1,700,000 outstanding under an unsecured $2,000,000 revolving line of credit. The line of credit matures on September 22, 2022 and, bears interest at a fixed rate of 5.00% with quarterly 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 zero, and at December 31, 2018 and 2017 had a remaining balance of approximately $174,000 and $195,000, 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, 2018 and 2017, total loans pledged to FHLB as collateral were $70,508,000 and $72,492,000, respectively.

As of December 31, 2018 and 2017, maturities of the Company's Federal Home Loan Bank Advances are approximately as follows:

Maturity	Rate	2018	2017
November 2018	Variable (1.59% at December 31, 2017)	$ -	$ 10,000,000
December 2019	Variable (2.65% at December 31, 2018)	13,000,000	-
August 2026 [1]	N/A	174,195	194,770
		$ 13,174,195	$ 10,194,770

[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, 2018, the Company has a $99.0 million line of credit facility at the FHLB of which $33.2 million was used for an advance of $13.2 million and a letter of credit to secure public deposits in the amount of $20.0 million. The Company also had $22.2 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, 2018 and 2017 total pledged loans to the Federal Reserve Bank were $36,288,000 and $40,590,000, respectively. Additionally, the Company has an unsecured $6.0 million fed funds line of credit.

Note 7. Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Cuts and and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides guidance for the application of ASC Topic 740, *Income Taxes*, in the reporting period in which the 2017 Tax Act was signed into law. As such, the Company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is incomplete but a reasonable estimate could be determined.

Note 7. Income Taxes, Continued

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

	2018	2017
Current tax expense	$ 281,989	$ 759,988
Deferred tax expense	841,790	1,459,457
Total income tax expense	$ 1,123,779	$ 2,219,445

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for the year ended December 31, 2018 and 34% for the year ended December 31, 2017 to income before income taxes follows:

	2018	2017
Tax benefit at statutory rate	$ 1,065,556	$ 1,302,603
State income taxes, net of federal benefit	155,223	92,665
Tax exempt interest income, net of disallowed interest expense	(139,674)	(291,289)
Cash surrender value of life insurance income	(56,557)	(93,794)
Impact of federal rate change on deferred taxes	-	1,162,293
Other	99,231	46,967
Total	$ 1,123,779	$ 2,219,445

The components of the net deferred tax asset (liability) is as follows as of December 31, 2018 and 2017:

	2018	2017
Deferred tax assets:		
Net operating losses and credits	$ 173,422	$ 796,611
Net unrealized loss on securities available for sale	541,187	319,275
Loans, principally due to difference in allowance for loan losses and deferred loan fees	385,103	388,410
Nonaccrual loan interest	3,335	6,101
Postretirement benefit accrual, deferred compensation	907,644	912,923
Other real estate owned	49,703	53,251
Premises and equipment	16,385	3,884
Other	177,057	395,581
Gross deferred tax assets	2,253,836	2,876,036
Deferred tax liabilities:		
Other	53,800	56,122
Net deferred tax asset	$ 2,200,036	$ 2,819,914

Note 7. Income Taxes, Continued

The Company has no net operating loss carryforwards for federal or state income tax purposes at December 31, 2018. The Company has certain state income tax credits of $219,522 at December 31, 2018 which begin to expire in the year 2021. In addition, the Company has Alternative Minimum Tax ("AMT") credit carryforwards which have been reclassified to taxes receivable to reflect the refundable nature of the credits under the Tax Cuts and Jobs Act. Due to the uncertainty relating to the realizability of all the carryforwards and credits, 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 2015 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.

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 the years ended December 31, 2018 and 2017, the Company recognized approximately $151,000 and $144,000, respectively, in expenses related to this plan. 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 $218,000 and $241,000 in 2018 and 2017, respectively, in noninterest expenses. The Company recognized approximately $269,000 and $276,000 in 2018 and 2017, respectively, in noninterest income related to the insurance contracts. For the Bonus Plan, the Company incurred approximately $31,000 in 2018 and $53,000 in 2017 for expenses related to the Bonus Plan.

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, 2018 and 2017, the cash surrender value of these insurance contracts was approximately $10,662,000 and $10,634,000, 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.

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.

	2018	2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 27,255,000	$ 24,616,000
Commercial letters of credit	1,476,000	1,586,000

Note 9. Commitments and Contingencies, Continued

Leases

The Company leases its corporate headquarters and its Columbus, Georgia branch location. The main office lease commenced on November 1, 2015 and has a 12 years and 2 months term. The lease requires monthly payments starting at $26,291 for the first year, increasing 3% per year thereafter. The Company received twenty (20) month rent abatement as of the lease commencement date. The Columbus branch lease commenced on June 1, 2007 and has a 7 year term. The lease requires monthly payments of $5,500 for four years and monthly lease payments of $6,000 for three years. The lease is renewable at the bank's option for two five year terms. In October 2013, the Company exercised its first option to renew the branch lease for five years. The renewed lease requires monthly payments of $6,300 for three years and monthly lease payments of $6,772 for two years commencing on June 1, 2014. The lease agreement is set to expire on May 31, 2019, at which point the Company does not expect to exercise the second renewal option. As of December 31, 2018, 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:

2019	$ 380,298
2020	356,786
2021	367,164
2022	376,325
2023 and thereafter	2,027,249
	$ 3,507,822

Rent expense in 2018 and 2017 was approximately $423,000 and $459,000, respectively, and was recorded in occupancy and equipment.

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.

Note 10. Stock Options

The Company has a Stock Incentive Plan which was approved in 1999. Under the 1999 Stock Incentive Plan, options are periodically granted to employees at a price not less than fair market value of the shares at the date of grant (or less than 110% of the fair market value if the participant owns more than 10% of the Company's outstanding Common Stock). The term of the stock incentive option may not exceed ten years from the date of grant; however, any stock incentive option granted to a participant who owns more than 10% of the Common Stock will not be exercisable after the expiration of five (5) years after the date the option is granted.

Note 10. Stock Options, Continued

A summary of the status of the Company's stock options as of December 31, 2018 and 2017 and changes during the years ended on those dates is presented below:

	2018				2017			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, beginning of year	15,000	$ 8.50	0.40	79,500	32,500	$ 9.48	0.87	-
Granted	-	-	-	-	-	-	-	-
Exercised	(9,000)	8.50	-	-	(1,500)	8.50	-	-
Expired/terminated	(6,000)	$ 8.50	-	-	(16,000)	$ 10.50	-	-
Outstanding, end of year	-	$ -	-	$ -	15,000	$ 8.50	0.40	$ 79,500
Options excercisable at year end	-	$ -	-	$ -	15,000	$ 8.50	0.40	$ 79,500
Shares available for grant	306,586				300,586			

Note 11. 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. Options with exercise prices lower than the average market price of the Company's stock during the periods are considered dilutive and are therefore included in the computation of diluted earnings per share. There were 15,000 options that were dilutive in 2017. As of December 31, 2018 there were no potentially dilutive options outstanding. 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, 2018 and 2017.

	Year ended December 31, 2018		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	$ 3,950,295	2,101,250	$ 1.88
Effect of dilutive securities: options to purchase common shares	-	-	-
Diluted earnings per share	$ 3,950,295	2,101,250	$ 1.88

	Year ended December 31, 2017		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	$ 1,479,496	2,145,808	$ 0.69
Effect of dilutive securities: options to purchase common shares	-	1,687	(0.01)
Diluted earnings per share	$ 1,479,496	2,147,495	$ 0.68

Note 12. 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.

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.

Note 12. Fair Value Measurements, Continued

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, 2018 and 2017, 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.

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.

Note 12. Fair Value Measurements, Continued

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, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Recurring basis:				
Securities available for sale:				
State, county and municipal securities	$ 16,241	$ -	$ 16,241	$ -
Mortgage-backed securities	67,553	-	67,553	-
Corporate securities	10,162	-	10,162	-
Total	$ 93,956	$ -	$ 93,956	$ -
Nonrecurring basis:				
Impaired loans				
Commercial real estate	$ 3,551	$ -	$ -	$ 3,551
Single family residential	309	-	-	309
Other real estate owned	548	-	-	548
Total	$ 4,408	$ -	$ -	$ 4,408

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Recurring basis:				
Securities available for sale:				
State, county and municipal securities	$ 22,199	$ -	$ 22,199	$ -
Mortgage-backed securities	74,535	-	74,535	-
Corporate securities	7,617	-	7,617	-
Total	$ 104,351	$ -	$ 104,351	$ -
Nonrecurring basis:				
Impaired loans				
Commercial real estate	$ 4,255	$ -	$ -	$ 4,255
Single family residential	256	-	-	256
Other real estate owned	646	-	-	646
Total	$ 5,157	$ -	$ -	$ 5,157

Note 12. Fair Value Measurements, Continued

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2018 and 2017, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	Fair Value at December 31, 2018 & 2017	Valuation Technique	Significant Unobservable Inputs	Range
Commercial Real Estate	\$3,551 & \$4,256	Appraised value	Negative adjustment for selling costs and changes in market conditions since appraisal	5%-20%
Single Family Residential	\$309 & \$255	Appraised value	Negative adjustment for selling costs and changes in market conditions since appraisal	5%-20%
OREO	\$548 & \$646	Appraised Value	Negative adjustment for selling costs and changes in market conditions since appraisal	5%-20%

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.

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

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

Loans - During the first quarter of 2018, the Company adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities.* The amendments included within this standard, which are applied prospectively, require the Company to measure and disclose fair value of balance sheet financial instruments using an exit price notion. Prior to adopting the amendments included in the standard, the Company measured fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk, and market factors that sometimes exist in exit prices in dislocated markets.

Note 12. Fair Value Measurements, Continued

Loans, continued - As of December 31, 2018, the technique used by the Company to estimate the exit price of the loan portfolio consists of similar procedures to those used as of December 31, 2017, but with added emphasis on both illiquidity risk and credit risk not captured by the previously applied entry price notion. The fair value of the Company's loan portfolio has always included a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. 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. The results are then adjusted to account for credit risk as described above. However, under the new guidance, the Company believes a further credit risk discount must be applied through the use of a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. This consideration of enhanced credit risk provides an estimated exit price for the Company's loan portfolio.

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.

As of December 31, 2017, the fair value of the Company's loan portfolio included a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption was intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. 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. The results are then adjusted to account for credit risk. 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. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price as of December 31, 2017.

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.

Note 12. Fair Value Measurements, Continued

***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.

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, 2018 (in thousands):

	December 31, 2018				
	Carrying	Fair Value Measurements			
	Amount	Total	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 1,876	$ 1,876	$ 1,876	$ -	$ -
Federal funds sold	15,558	15,558	15,558	-	-
Interest-bearing deposits with banks	12,073	12,073	12,073	-	-
Certificates of deposit	1,052	1,052	1,052	-	-
Investment securities	93,956	93,956	-	93,956	-
Other investments	1,332	1,332	1,332	-	-
Loans, net	259,283	252,889	-	-	252,889
Financial liabilities:					
Deposits	$ 347,634	$ 288,105	$ 212,776	$ 75,329	$ -
Notes Payable	1,700,000	1,700,000	-	1,700,000	-
Advances from Federal Home Loan Bank	13,174	13,174	-	13,174	-

	Notional Amount	Estimated Fair Value
Off-balance-sheet financial instruments:		
Commitments to extend credit	$ 27,255	$ -
Commercial letters of credit	1,476	-

Note 12. Fair Value Measurements, Continued

	December 31, 2017				
	Carrying	Fair Value Measurements			
	Amount	Total	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 2,076	$ 2,076	$ 2,076	$ -	$ -
Federal funds sold	18,766	18,766	18,766	-	-
Interest-bearing deposits with banks	29,822	29,822	29,822	-	-
Certificates of deposit	1,150	1,150	1,150	-	-
Investment securities	104,351	104,351	-	104,351	-
Other investments	1,175	1,175	1,175	-	-
Loans, net	245,098	244,453	-	-	244,453
Financial liabilities:					
Deposits	$ 372,252	$ 317,205	$ 226,963	$ 90,242	$ -
Notes Payable	1,900,000	1,900,000	-	1,900,000	-
Advances from Federal Home Loan Bank	10,195	10,195	-	10,195	-

	Notional Amount	Estimated Fair Value
Off-balance-sheet financial instruments:		
Commitments to extend credit	$ 24,616	$ -
Commercial letters of credit	1,586	-

Note 13. 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, 2018, the Company meets all capital adequacy requirements to which it is subject.

Note 13. Stockholders' Equity, Continued

On June 30, 2017, the Company implemented a planned reorganization of the corporation. The primary purpose of the Reorganization was to enable the Company to retain the termination of the registration of its common stock under Section 12(g) of the Securities Exchange Act. In the Reorganization, stockholders owning 499 or fewer shares of Citizens common stock received $10.00 in cash for each share they owned on the effective date of the Reorganization. All other shares remained outstanding and were unaffected by the Reorganization. As a result of the reorganization, the Company repurchased and retired 89,772 shares at a cost of $10.00 per share.

As of December 31, 2018, 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):

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
December 31, 2018	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Consolidated	$ 47,137	16.6%	$ 22,778	8.0%	N/A	N/A
Bank	46,383	16.3%	22,778	8.0%	$ 28,473	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	45,501	16.0%	12,813	4.5%	N/A	N/A
Bank	44,747	15.7%	12,813	4.5%	18,507	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	45,501	16.0%	17,084	6.0%	N/A	N/A
Bank	44,747	15.7%	17,084	6.0%	22,778	8.0%
Tier I capital (to average assets)						
Consolidated	45,501	11.4%	16,014	4.0%	N/A	N/A
Bank	44,747	11.2%	15,994	4.0%	19,992	5.0%
December 31, 2017						
Total capital (to risk-weighted assets)						
Consolidated	$ 42,207	15.4%	$ 21,965	8.0%	N/A	N/A
Bank	43,139	15.8%	21,902	8.0%	$ 27,377	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	40,397	14.7%	12,355	4.5%	N/A	N/A
Bank	41,269	15.1%	12,320	4.5%	17,795	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	40,397	14.7%	16,477	6.0%	N/A	N/A
Bank	41,269	15.1%	16,426	6.0%	21,902	8.0%
Tier I capital (to average assets)						
Consolidated	40,397	9.7%	16,677	4.0%	N/A	N/A
Bank	41,269	10.0%	16,634	4.0%	20,793	5.0%

Note 13. 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.

When the Company received a capital investment from the United States Department of the Treasury in exchange for Preferred Stock under the Troubled Assets Relief Program ("TARP") Capital Purchase Program on March 6, 2009, the Company became subject to additional limitations on the payment of dividends. These limitations require, among other things, that for as long as the Preferred Stock is outstanding, no dividends may be declared or paid on the Company's common stock until all accrued and unpaid dividends on the Preferred Stock are fully paid. In addition, the U.S. Treasury's consent is required for any increase in dividends on common stock before the third anniversary of issuance of the Preferred Stock. On October 4, 2017, the Company repurchased its remaining outstanding preferred stock from the Department of the Treasury and exited the TARP Program.

On June 30, 2017, the Company restructured its Georgia Corporation solely to effect a planned Reorganization. In the Reorganization, stockholders owning 499 or fewer shares of Citizens common stock received $10.00 in cash for each share that they owned on the effective date of the Reorganization. All other shares remained outstanding and were unaffected by the Reorganization.

The Company paid dividends of $526,000 and $175,000 on its common stock in 2018 and 2017, respectively. The annual dividend payout rate was $0.25 and $0.08 per common share in 2018 and 2017, respectively. In addition, the Company paid cash dividends on its preferred stock totaling $132,000 in 2017 issued to the Treasury. There were no preferred cash dividends paid in 2018.

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 and certain requirements of the rule will be fully phased in 2019. We believe that the final rule will not have a material impact on our regulatory capital ratios, business, financial condition, results of operations and cash flows.

Note 14. 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, 2018 and 2017, the Company had related party loans totaling $13,275,541 and $9,763,359, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $25,064,001 and $24,801,790 at December 31, 2018 and 2017, respectively.

Note 15. Supplementary Income Statement Information

Components of other operating expenses in excess of 1% of total interest income and other noninterest income in any of the respective years are approximately as follows for the years ended December 31:

	2018	2017
Professional services, legal	$ 241,629	$ 412,830
Professional services, other	739,831	636,175
Stationery and supplies	122,783	168,778
Data processing	1,722,071	1,418,647
Telephone	293,995	308,861
FDIC insurance premium	121,000	132,000
Security and protection expense	282,847	293,280
Advertising and marketing	143,387	134,005
Other benefit expenses	217,500	241,000
Other miscellaneous expenses	1,912,641	1,996,932
	$ 5,797,684	$ 5,742,508

Note 16. 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

	December 31,	
	2018	2017
Assets		
Cash	$ 226,083	$ 270,816
Investment in banking subsidiary	43,574,389	41,009,929
Other assets	927,472	790,470
Total assets	$ 44,727,944	$ 42,071,215
Liabilities and Stockholders' Equity		
Other liabilities	$ 75,273	$ 33,432
Note payable	1,700,000	1,900,000
Stockholders' equity	42,952,671	40,137,783
Total liabilities and stockholders' equity	$ 44,727,944	$ 42,071,215

Note 16. Citizens Bancshares Corporation and Subsidiary (Parent Company Only), Continued

Condensed Statements of Income

	For the years ended December 31, 2018	2017
Income	$ 1,000,000	$ 6,512,000
Expenses	539,538	508,952
Income before tax benefit (expense) and equity in undistributed earnings of banking subsidiary	460,462	6,003,048
Income tax benefit (expense)	138,353	(132,693)
Income before equity in undistributed earnings of the subsidiary	598,815	5,870,355
Equity in undistributed earnings (loss) of the subsidiary	3,351,480	(4,258,616)
Net income	$ 3,950,295	$ 1,611,739

Condensed Statements of Cash Flows

	For the years ended December 31, 2018	2017
Operating activities		
Net income	$ 3,950,295	$ 1,611,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings (loss) of banking subsidiary	(3,351,480)	4,258,616
Restricted stock based compensation plan	16,503	(74,014)
Change in other assets	(136,759)	128,127
Change in other liabilities	41,841	(4,948)
Net cash provided by operating activities	520,400	5,919,520
Financing activities		
Payment on note payable	(200,000)	(100,000)
Redemption of preferred stock	-	(7,462,000)
Common stock buy-back	-	(897,723)
Common stock dividend paid	(525,724)	(174,821)
Preferred stock dividend paid	-	(132,243)
Proceeds from note payable	-	2,000,000
Proceeds from issuance of common stock	242,088	232,626
Purchase of treasury stock	(81,497)	(101,851)
Net cash used in financing activities	(565,133)	(6,636,012)
Net decrease in cash	(44,733)	(716,492)
Cash, beginning of year	270,816	987,308
Cash, end of year	$ 226,083	$ 270,816

Note 17. 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. Management has reviewed events occurring through April 9, 2019, the date the financial statements were available to be issued and noted no items requiring accrual or disclosure.

Stockholders Information

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678.406.4000

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Corporation
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Notice of Annual Meeting
May 22, 2019, 11:00 a.m. ET
Loudermilk Conference Center
40 Courtland Street, NE
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

JASON A. EPPENGER
Alabama Market President

IRIS D. GOODLY
Senior Vice President/Director of Client Services
and Operations

FARRAND O. LOGAN
Senior Vice President/Commercial Banking
Division Manager

WANDA F. NESBIT
Senior Vice President/Human Resources Director, CBM

MOIRA R. MONTGOMERY
Vice President/Compliance Officer/Special
Projects Manager

ADRIENNE A. WHITE
Vice President/ Strategy and
Business Development Officer

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East Point, GA 30344

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Stonecrest, GA 30058

Rockbridge
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Stone Mountain, GA 30087

Westside
Main Office
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ALABAMA

Birmingham Headquarters
1700 3rd Avenue North
Birmingham, AL 35203

Eutaw
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Eutaw, AL 35462

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