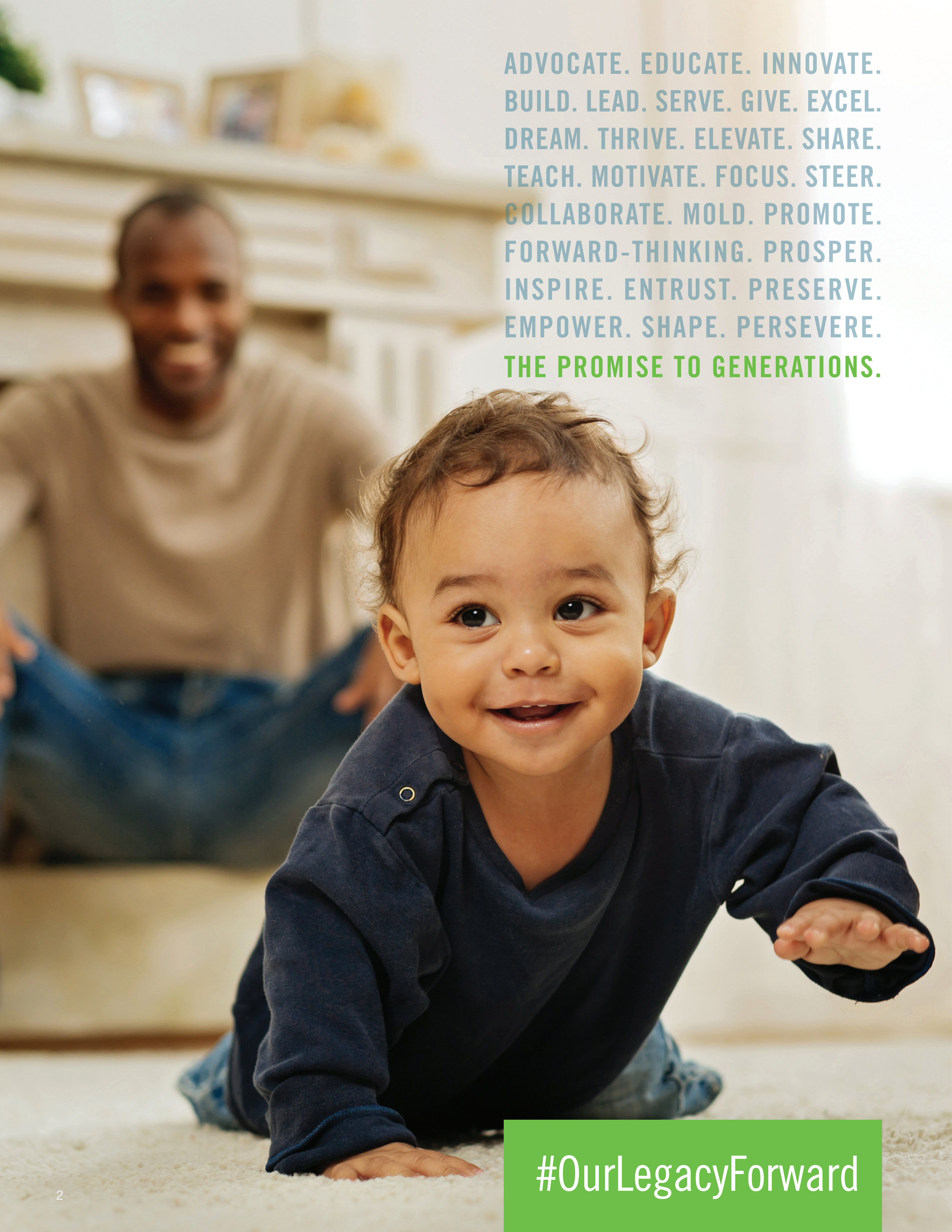
ADVOCATE. EDUCATE. INNOVATE. BUILD. LEAD. SERVE. GIVE. EXCEL. DREAM. THRIVE. ELEVATE. SHARE. TEACH. MOTIVATE. FOCUS. STEER. COLLABORATE. MOLD. PROMOTE. FORWARD-THINKING. PROSPER. DRIVE. #OURLEGACYFORWARD INSPIRE. ENTRUST. PRESERVE. EMPOWER. SHAPE. PERSEVERE.

THE PROMISE TO GENERATIONS

2019 ANNUAL REPORT

CITIZENS BANCSHARES CORPORATION

SINCE 1921



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THE PROMISE TO GENERATIONS.

#OurLegacyForward

Financials

Selected Financial Data for
Citizens Bancshares Corporation & Subsidiary

Years ended December 31, (amounts in thousands, except per share data and financial ratios)	**2019**	**2018**	**2017**
STATEMENT OF INCOME DATA:			
Net interest income	$15,380	$14,812	$13,848
Income before income tax expense	$4,751	$5,074	$3,831
Net income	$3,748	$3,950	$1,612
Net income available to common shareholders	$3,748	$3,950	$1,479
PER SHARE DATA:			
Net income per common share - basic	$1.79	$1.88	$0.69
Net income per common share - basic (excluding impact of change in tax rate)	$1.79	$1.88	$1.23
Book value per common share	$22.55	$20.32	$19.15
Cash dividends paid per common share	$0.50	$0.25	$0.08
BALANCE SHEET DATA:			
Loans, net of unearned income	$269,632	$260,919	$246,968
Deposits	$361,358	$347,634	$372,252
Advances from Federal Home Loan Bank	$153	$13,174	$10,195
Total assets	$417,828	$410,584	$429,113
Average stockholders' equity	$45,054	$40,442	$46,742
Average assets	$416,744	$406,424	$412,381
RATIOS:			
Income before income tax expense to average assets	1.14%	1.25%	0.93%
Net income to average assets	0.90%	0.97%	0.39%
Net income available to common shareholders to average assets	0.90%	0.97%	0.36%
Net income to average shareholders equity	8.32%	9.77%	3.45%
Net income available to common shareholders to average stockholders' equity	8.32%	9.77%	3.16%
Dividend payout ratio per common share	28.11%	13.31%	11.82%
Average stockholders' equity to average assets	10.81%	9.95%	11.33%
Tier 1 capital ratio (to risk weighted assets)	16%	16%	15%
Total capital ratio	17%	17%	15%

Shareholders Message

During the COVID-19 pandemic, Citizens Trust Bank remains committed to keeping our customers and team members informed and safe, providing up-to-date information so our customers can bank confidently during this rapidly evolving situation – and assisting customers already affected by the coronavirus.

Citizens Trust Bank has a Pandemic Plan that addresses triggers and related actions regarding the safety and continuity of the bank's operations. Additionally, we have activated our crisis management team as part of the Pandemic Plan, and we are working the situation to address the needs of our communities.

Citizens Trust Bank is embracing this challenge and is prepared to weather this storm. While we do not currently anticipate any significant impact to services, we will continue to monitor and do everything possible to mitigate any issues as the situation develops. We are coordinating with the proper state and federal officials to provide up-to-date services and information, and are providing COVID-19 updates on the Citizens Trust Bank website.

In preparing our annual report and letter to shareholders, we find ourselves in the midst of an unprecedented health crisis that is having a profound impact on the world and causing a deep contraction in vast areas of our economy. As a result, many people and businesses are facing significant challenges.

Our first priority during this time is the health and safety of our employees and customers. We have made operational adjustments to ensure that our employees are safe and that our customers have uninterrupted access to their accounts and the ability to connect with us for any assistance needed.

For almost 100-years, Citizens Trust Bank has built its reputation on being there for our customers and communities, especially in the midst of unparalleled and critical times. This time is no different. Our actions during this global crisis are essential to saving small businesses and the communities they support for years to come.

elevate

To reimagine and transform our ability to deliver the right solutions to our customers in a smarter and more efficient way.

During these extraordinary times, we are proud to say our commitment to our values and mission are resonating stronger than ever. One of many examples include the tremendous effort and resources being put forth to ensure our customers and small businesses get access to the assistance provided under the CARES ACT, more specifically the SBA 7(a) Payroll Protection Program. This program was established to provide much needed economic relief to small businesses adversely impacted by COVID-19. Your Bank's participation in this program helped guide community businesses through the qualification process and ultimately funded loans to support their businesses. These efforts are requiring tremendous sacrifice and strain on human resources but yielding tremendous benefits in saving businesses, jobs and stabilizing communities. For your leaders and associates this has been extremely rewarding.

Though we are working diligently to help our customers, we are uncertain of the long term impact and duration of this pandemic. As you might imagine, the strategies we began the year with may look very different from the strategies necessary to run our Company when we emerge from the crisis. Currently, as we deal with the effects of the pandemic, we will remain focused on what we can do to remain strong and well positioned to support our team, our customers and communities. Over the last two decades, we have weathered some challenging times, "the Great Recession", and during this pandemic we have the same resilience and fortitude.

innovate

The new norm is: our industry continues to rapidly change and if we don't reimagine, innovate and change along with it, we will cease to remain effective.

We are proud and grateful for our associates' commitment, highlighted with a remarkable spirit and selflessness, to providing unrelenting support to our customers during a time when they have personal concerns around the safety and health of their own families. I want to thank our Board of Directors and our senior leaders for the exceptional leadership they have exhibited under the most difficult circumstances. Our thoughts also remain with the communities and individuals most deeply hit by the COVID-19 crisis, including healthcare workers, first responders and all of our communities unsung heroes.

We entered the crisis in a position of strength. 2019 was another strong year for the Company as we hit some meaningful milestones that validated our strategy. The following key performance indicators show how each year we become a more competitive and dynamic financial institution:

- We paid a historic $0.50 per share dividend, which included a $0.20 per share special dividend, to our shareholders representing a 100% increase over prior year.

continued on page 6

- We generated historic lending production of over $65 million increasing loans outstanding to approximately $270 million, representing a 3% increase over prior year.
- We had growth in deposits of over $13.7 million or 4% over prior year.
- We had another strong year of pre-tax earnings of approximately $4.8 million impacted by elevated operating expenses due to decisions to invest in technology and other one-time charges.
- We have a strong capital position with a Tier I Capital Ratio of approximately 16% as of December 31, 2019.

During 2019, the risk profile of our balance sheet was solid. The interest income from our core earning assets grew significantly from $15.9 million in 2018 to over $17 million in 2019, continuing the trend of yielding excellent loan penetration throughout our Georgia and Alabama footprint, while simultaneously, expanding into new markets in Florida, Tennessee, South Carolina and Mississippi.

Our company is uniquely positioned with a culture based on high-touch customer responsiveness, integrity and teamwork. This combination gives your Company a competitive advantage in serving customers and attracting outstanding team members, while driving a high level of financial performance.

While we are proud of what we've accomplished over the past year, our executive management team is passionate about continuing to lay the foundation necessary to execute our strategies and move our legacy forward. As we look ahead to 2020 and beyond, we are committed to:

Elevate our customer experience and transform the way we deliver our services.

Innovate and continue to reinforce a culture of creative and inspired thinking.

Collaborate and work together to transform lives and build stronger communities for future generations.

Elevate

Our guiding principles, our six strategic pillars – Customer Engagement, Customer Experience, Innovative Solutions, Inspired People, Community Impact, and Financial Success – remain at the core of our continued progress and success. Execution of these priorities is critical to our promise to deliver our customers financial solutions that will enhance their ability to live their financial lives, now and in the future.

In 2020, we will pursue deeper relationships with our customers through an enhanced customer experience, alongside a deeper commitment with our teammates to reach our common goals.

To reimagine and transform our ability to deliver the right solutions to our customers in a smarter and more efficient way, we are making investments in technology and changing our core processing partner which will allow us to elevate our customer experience and transform the way we deliver our service.

Further, it will give us the ability to provide a more pleasurable experience for our customers as well as a more expansive suite of solutions to meet their financial needs; it will create more efficient workflows; and it will give us access to more timely and improved financial information to better run our business. That's a win for everyone.

Collaborate

Two of our strategic pillars (inspired people and community impact) are embedded in the value of people working together. At Citizens Trust Bank, collaboration is **internal** – how we respect, respond and inspire each other as a team and **external** – how we respect, engage and serve our customers. We recognize both are key ingredients to our success.

collaborate

We aspire to continuously engage and collaborate with our customers to meet their financial needs how and when they need us.

Initiated in 2019 and concluding in 2020, our team is committed to ProjectElevate. ProjectElevate is a sizable commitment that requires collaboration across all business lines to execute on a successful transition of our core operating system. This collaboration will provide tangible benefits to our customers and our Company.

We value the importance of our associates and their development. Therefore, during 2019 we solicited the collaboration of our leaders and instituted a Leadership Development Academy to groom and inspire the leadership of the future. This was our first year, and we continue to pursue opportunities to enhance and expand the reach of the program.

Externally, we aspire to continuously engage and collaborate with our customers to meet their financial needs how and when they need us. We engaged our community through several community impact initiatives... from hosting financial education seminars, homebuyer's seminars for thousands of potential homeowners, estate planning seminars, customer appreciation mixers, to serving on capital-centered community panels and partnering with local professional organizations. During 2019, we are proud of how we engaged and collaborated with our community.

Innovate

In order to keep pace and serve our customers in a manner they deserve, it is imperative that we persist in our investment in technology and our core operating infrastructure to support both their current and future needs.

This past year, we didn't just want to think out of the box, we wanted to *remove* the box. The new norm is: our industry continues to rapidly change and if we don't reimagine, innovate and change along with it, we will cease to remain effective.

At Citizens Trust Bank, we are committed to improving our customer experience to best in class. We are committed to continue to evolve and improve their engagement with us whether through face to face interaction or engagement through their digital experience. A pleasurable customer experience is our main priority.

We have taken steps to increase the effectiveness of our digital experience, and to ensure maximum reliability for our increasingly larger community of online customers. As a community bank, we leveraged vendor partnerships to increase our organizational efficiency while also lowering operational cost.

Our Present. Our Future. #OurLegacyForward

Although our Company is fortunate to enjoy a highly respected brand and longstanding legacy, we realize we are operating in a challenging and rapidly changing environment. We believe now more than ever being a community bank is a great place to be. It allows the nimbleness and flexibility necessary to operate in a changing business environment yet add great value and much needed support to its customers.

We are proud to be a community bank and on the front line working with our customers to navigate through this pandemic. We are well-positioned, and strongly capitalized. Our team and our commitment cause us to be optimistic about the future. We recognize the challenges that may lie ahead. We will confront the challenges, but will focus on the opportunities to expand and build new relationships, to attract new talent, and to differentiate and grow our Company.

After all, this is Citizens Trust Bank's legacy, and our promise to future generations.

Sincerely,

Cyntha N. Day
President and CEO
Citizens Trust Bank

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, 2019 and 2018

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elliott davis

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, 2019 and 2018, 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, 2019 and 2018, 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
March 24, 2020

Citizens Bancshares Corporation and Subsidiary

Consolidated Balance Sheets

As of December 31, 2019 and 2018

	2019	2018
Assets:		
Cash and due from banks, including reserve requirements of $389,000 and $397,000 at December 31, 2019 and 2018, respectively	$ 2,103,009	$ 1,875,985
Federal funds sold	12,821,170	15,557,811
Interest bearing deposits with banks	24,610,556	12,072,887
Certificates of deposit	850,000	1,051,654
Investment securities available for sale at fair value (amortized cost of $82,929,619 and $96,205,241 at December 31, 2019 and 2018, respectively)	82,904,841	93,956,166
Other investments	762,550	1,332,450
Loans receivable, net of allowance for loan losses of $1,630,646 at December 31, 2019 and $1,636,290 at December 31, 2018	268,000,557	259,283,049
Premises and equipment, net	7,334,318	7,744,245
Cash surrender value of life insurance	10,934,189	10,662,471
Other real estate owned	161,000	547,812
Other assets	7,345,766	6,499,838
Total assets	$ 417,827,956	$ 410,584,368
Liabilities:		
Deposits:		
Noninterest-bearing deposits	$ 109,318,103	$ 111,706,895
Interest-bearing deposits	252,039,983	235,926,803
Total deposits	361,358,086	347,633,698
Accrued expenses and other liabilities	8,000,056	5,123,804
Notes payable	1,550,000	1,700,000
Advances from Federal Home Loan Bank	153,205	13,174,195
Total liabilities	371,061,347	367,631,697
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock $1 par value; 20,000,000 shares authorized; 2,305,641 and 2,287,241 shares issued and outstanding at December 31, 2019 and 2018, respectively	2,305,641	2,287,241
Nonvoting common stock, $1 par value; 5,000,000 shares authorized; 90,000 shares issued and outstanding at December 31, 2019 and 2018, respectively	90,000	90,000
Nonvested restricted common stock	(148,736)	(167,313)
Additional paid-in capital	8,420,945	8,242,470
Retained earnings	39,077,283	36,382,497
Treasury stock, at cost, 321,772 and 263,244 shares at December 31, 2019 and 2018, respectively	(3,005,587)	(2,174,336)
Accumulated other comprehensive income (loss), net of income taxes	27,063	(1,707,888)
Total stockholders' equity	46,766,609	42,952,671
Total liabilities and stockholders' equity	$ 417,827,956	$ 410,584,368

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

	2019	2018
Interest income:		
Loans, including fees	$ 14,199,623	$ 12,902,041
Investment securities:		
Taxable	1,813,637	1,870,308
Non-taxable	269,280	471,812
Dividends	51,418	47,813
Federal funds sold	304,784	333,347
Interest-bearing deposits	433,648	292,538
Total interest income	17,072,390	15,906,987
Interest expense:		
Deposits	1,601,125	971,096
Other borrowings	91,445	124,117
Total interest expense	1,692,570	1,095,213
Net interest income	15,379,820	14,811,774
Provision for loan losses	170,000	-
Net interest income after provision for loan losses	15,209,820	14,811,774
Noninterest income:		
Service charges on deposit accounts	3,474,835	3,678,425
Gains on sales of securities	159,144	-
Mortgage origination fees	245,255	246,023
ATM surcharges	129,111	149,512
Bank owned life insurance	271,718	269,321
Grant income	-	340,231
Other operating income	680,829	674,574
Total noninterest income	4,960,892	5,368,958
Noninterest expense:		
Salaries and employee benefits	7,432,439	7,097,195
Occupancy and equipment	1,872,646	2,185,216
Other real estate owned	14,378	26,563
Other operating expenses	6,100,209	5,797,684
Total noninterest expense	15,419,672	15,106,658
Income before income tax expense	4,751,040	5,074,074
Income tax expense	1,002,621	1,123,779
Net income	$ 3,748,419	$ 3,950,295
Net income per common share - basic	$ 1.79	$ 1.88
Net income per common share - diluted	$ 1.79	$ 1.88
Weighted average outstanding shares:		
Basic	2,095,111	2,101,250
Diluted	2,095,111	2,101,250

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

	2019	2018
Net income	$ 3,748,419	$ 3,950,295
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	2,383,439	(1,008,688)
Reclassification adjustment for gains included in net income	(159,144)	-
Tax effect	(489,344)	221,911
Other comprehensive income (loss), net of tax	1,734,951	(786,777)
Comprehensive income	$ 5,483,370	$ 3,163,518

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2019 and 2018

	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, 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
Net income	-	-	-	-	-	-	-	-	3,748,419	-	-	-	3,748,419
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,734,951	1,734,951
Nonvested restricted stock	-	-	-	-	-	-	18,577	5,215	-	-	-	-	23,792
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(58,478)	(831,251)	-	(831,251)
Issuance of common stock	-	-	18,400	18,400	-	-	-	173,260	-	-	-	-	191,660
Dividends paid on common stock	-	-	-	-	-	-	-	-	(1,053,633)	-	-	-	(1,053,633)
Balance, December 31, 2019	-	$ -	2,305,641	$ 2,305,641	90,000	$ 90,000	$ (148,736)	$ 8,420,945	$ 39,077,283	(321,722)	$ (3,005,587)	$ 27,063	$ 46,766,609

Citizens Bancshares Corporation and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income	$ 3,748,419	$ 3,950,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	170,000	-
Depreciation	655,060	770,590
Amortization and accretion, net	530,409	449,474
Provision for deferred income taxes	28,140	841,790
Net gain on sale of securities	(159,144)	-
Gain on sale of other real estate owned	(25,772)	(12,587)
Restricted stock compensation	215,452	258,591
Increase in cash surrender value of life insurance	(271,718)	(28,833)
Change in assets and liabilities:		
Change in other assets	(1,363,412)	268,478
Change in accrued expenses and other liabilities	2,876,252	495,422
Net cash provided by operating activities	6,403,686	6,993,220
Cash flows from investing activities:		
Net change in certificates of deposit	201,654	98,346
Proceeds from the sales, maturities and paydowns of securities available for sale	23,665,938	16,628,791
Purchases of securities available for sale	(10,761,583)	(7,692,327)
Net decrease (increase) in other investments	569,900	(157,100)
Net increase in loans	(8,933,048)	(14,225,882)
Purchases of premises and equipment	(245,133)	(567,995)
Proceeds from sale of other real estate owned	458,124	151,507
Net cash provided by (used in) investing activities	4,955,852	(5,764,660)
Cash flows from financing activities:		
Net change in deposits	13,724,388	(24,618,092)
Principal payments on note payable	(150,000)	(200,000)
Net (decrease) increase in Federal Home Loan Bank advances	(13,020,990)	2,979,425
Common stock dividend paid	(1,053,633)	(525,724)
Net purchase of treasury stock	(831,251)	(81,497)
Net cash used in financing activities	(1,331,486)	(22,445,888)
Net increase (decrease) in cash and cash equivalents	10,028,052	(21,217,328)
Cash and cash equivalents, beginning of year	29,506,683	50,724,011
Cash and cash equivalents, end of year	$ 39,534,735	$ 29,506,683
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 1,708,004	$ 990,750
Income taxes	$ (285,607)	$ 135,000
Supplemental schedule of non-cash investing and financing activities		
Real estate acquired through foreclosure	$ 45,540	$ 40,382
Change in unrealized gain (loss) on investment securities available for sale, net	$ 2,224,295	$ (1,008,688)

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, Georgia, and Birmingham and Eutaw, Alabama through its wholly owned subsidiary, Citizens Trust Bank (the "Bank" and together the "Company"). The Bank operates under a state charter and serves its customers through five full-service branches in metropolitan Atlanta, one full-service branch in Birmingham, Alabama, and one full-service branch in Eutaw, Alabama. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation:

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

Cash and cash equivalents:

Cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with banks and federal funds sold. The Federal Reserve Bank (the "FRB") requires the Company to maintain a required cash reserve balance on deposit with the FRB, based on the Company's daily average balance with the FRB. This reserve requirement represents 3% of the Company's daily average demand deposit balance between $16.3 million and $124.2 million and 10% of the Company's daily average demand deposit balance above $124.2 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 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.

Note 1. Summary of Significant Accounting Policies, Continued

Investment securities:

The Company classifies investments in one of three categories based on management's intent upon purchase: held to maturity securities which are reported at amortized cost, trading securities which are reported at fair value with unrealized holding gains and losses included in earnings, and available for sale securities which are recorded at fair value with unrealized holding gains and losses included as a component of accumulated other comprehensive income. The Company had no investment securities classified as trading or classified as held to maturity at December 31, 2019 or 2018.

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 2019 or 2018.

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, 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.

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable and allowance for loan losses, continued:

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

Troubled debt restructurings:

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

The modification may include a change in the interest rate or the payment amount or a combination of both. Substantially all modifications completed under a formal restructuring agreement are considered TDRs. Modifications can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accruing status, depending on the individual facts and circumstances of the borrower. These restructurings rarely result in the forgiveness of principal or interest. Nonperforming 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.

Note 1. Summary of Significant Accounting Policies, Continued

Premises and equipment:

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

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

Leases:

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

Beginning January 1, 2019, operating lease ROU assets and lease liabilities are recognized at the commencement of the lease based on the present value of lease payments over the lease term. The lease payments included in the present value are fixed payments and index-based variable lease payments. The Company estimates the incremental borrowing rate, based on information available at the commencement of the lease, as most of the Company's leases do not include an implicit rate.

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, 2019 and 2018 are summarized below:

	2019	2018
Balance, beginning of year	$ 547,812	$ 646,350
Additions	45,540	40,382
Sales	(432,352)	(138,920)
Write downs	-	-
Balance, end of year	$ 161,000	$ 547,812

Note 1. Summary of Significant Accounting Policies, Continued

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, 2019 and 2018, 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.

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:

A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period. 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.

Note 1. Summary of Significant Accounting Policies, Continued

Stock based compensation, continued:

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 vested on January 1, 2018.

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

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

Comprehensive income:

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

Fair values of financial instruments:

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

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, 2019 and 2018 using an exit price notion and will continue to, prospectively.

Note 1. Summary of Significant Accounting Policies, Continued

Risks and Uncertainties:

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

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

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

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1.00% on March 3, 2020 for the first time. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%. This rate was further reduced to 0% to 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.

Recently adopted accounting pronouncements:

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

In 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.

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

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.

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.

The Company evaluated these ASUs and determined that this guidance did not have a material impact on the way the Company currently recognizes revenue or that way it recognizes expenses related to those revenue streams. The Company adopted ASU No. 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

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

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

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 adoption of ASU 2016-02 resulted in the recognition of right-of-use assets and lease liabilities totaling $2.4 million and $2.8 million at January 1, 2019. The ROU assets and liabilities were and $2.2 million and $2.6 million as of December 31, 2019. Refer to Note 9 for additional detail.

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 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 were effective for the Company for interim and annual periods beginning after December 15, 2018. These amendments had no material effect on the Company's 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 for the year ended December 31, 2017.

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

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 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 were effective for fiscal years beginning after December 15, 2018. These amendments did not have a material effect on the financial statements.

Recently issued accounting pronouncements:

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted, 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 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.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

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

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

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

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

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 2019 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, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	$ 10,162,119	$ 122,870	$ -	$ 10,284,989
Mortgage-backed securities	60,804,944	154,824	(406,339)	60,553,429
Corporate securities	11,962,556	126,338	(22,471)	12,066,423
	$ 82,929,619	$ 404,032	$ (428,810)	$ 82,904,841

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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

Note 2. Investment Securities, Continued

The amortized costs and fair values of investment securities at December 31, 2019, by contractual maturity, are shown below. Mortgage-backed securities are classified by their contractual maturity, however, expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with and without call or prepayment penalties.

	Securities Available For Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	$ -	$ -
Due after one year but within five years	19,930,271	20,069,013
Due after five years but within ten years	19,905,928	19,932,332
Due after ten years	43,093,420	42,903,496
Total	$ 82,929,619	$ 82,904,841

There were two securities sold in 2019 and no securities sold in 2018. Investment securities with carrying values of approximately $60,785,000 and $62,281,000 at December 31, 2019 and 2018, respectively, were pledged to secure public funds on deposit and for other purposes as required by law, FHLB advances and a $24 million line of credit at the Federal Reserve Bank discount window.

Sales of investment securities available for sale for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Proceeds	$ 5,366,375	$ -
Realized gains	169,874	-
Realized losses	(10,730)	-
Total investment securities gains, net	$ 159,144	$ -

Note 2. Investment Securities, Continued

The following tables show gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2019 and December 31, 2018.

	December 31, 2019					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	10,764,540	(43,371)	26,558,482	(362,968)	37,323,022	(406,339)
Corporate securities	1,876,202	(22,471)	-	-	1,876,202	(22,471)
	$ 12,640,742	$ (65,842)	$ 26,558,482	$ (362,968)	$ 39,199,224	$ (428,810)

	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 securities	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)

Securities classified as available for sale are recorded at fair market value. At December 31, 2019 and 2018, the Company had twenty-nine and sixty-five 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'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, 2019 and 2018 (in thousands):

	2019	2018
Commercial, financial and agricultural	$ 45,112	$ 45,283
Commercial real estate	142,757	127,790
Single family residential	65,436	74,532
Construction and development	8,926	5,791
Consumer	7,401	7,523
	269,632	260,919
Allowance for loan losses	1,631	1,636
Total loans	$ 268,001	$ 259,283

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 $55.6 million and $52.3 million at December 31, 2019 and 2018, respectively, which are generally secured by real estate.
- The Company's loans to area hotels were approximately $28.5 million and $40.0 million at December 31, 2019 and 2018, respectively, which are generally secured by real estate.

The following is a summary of information pertaining to the Bank's allowance for loan losses at December 31, 2019 and 2018 (in thousands):

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

	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

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

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

In determining our allowance for loan losses, we regularly review loans for specific reserves based on the appropriate impairment assessment methodology. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. At December 31, 2019 and 2018, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. General reserves are determined using historical loss trends measured over a rolling four quarter average for consumer loans, and a three year average loss factor for commercial loans which is applied to risk rated loans grouped by FFIEC call code. For commercial loans, the general reserves are calculated by applying the appropriate historical loss factor to the loan pool. Impaired loans greater than a minimum threshold established by management are excluded from this analysis. The sum of all such amounts determines our total allowance for loan losses.

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

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

	For the year ended December 31, 2019					
	Commercial	Commercial Real Estate	Single-family Residential	Construction & Development	Consumer	Total
Allowance for loan losses:						
Specific reserves						
Impaired loans	$ -	$ 75	$ -	$ -	$ -	$ 75
Total specific reserves	-	75	-	-	-	75
General reserves	231	778	247	49	251	1,556
Total	$ 231	$ 853	$ 247	$ 49	$ 251	$ 1,631
Loans outstanding:						
Loans individually evaluated for impairment	$ 304	$ 3,216	$ 292	$ -	$ -	$ 3,812
Loans collectively evaluated for impairment	44,808	139,541	65,144	8,926	7,401	265,820
Total	$ 45,112	$ 142,757	$ 65,436	$ 8,926	$ 7,401	$ 269,632

	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

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, 2019 and 2018 (in thousands):

	December 31, 2019							
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing	Nonaccrual
Residential:								
First mortgages	$ 580	$ 995	$ 582	$ 2,157	$ 48,655	$ 50,812	$ -	$ 686
HELOC's and equity	-	-	151	151	14,473	14,624	-	151
Commercial:								
Secured	50	200	10	260	39,311	39,571	-	10
Unsecured	-	-	-	-	5,541	5,541	-	-
Commercial real estate:								
Owner occupied	1,371	254	1,145	2,770	71,483	74,253	-	1,445
Nonowner occupied	291	21	-	312	61,565	61,877	-	-
Multifamily	-	-	-	-	6,627	6,627	-	-
Construction and development:								
Construction	-	-	-	-	8,688	8,688	-	-
Improved land	-	-	-	-	238	238	-	-
Unimproved land	-	-	-	-	-	-	-	-
Consumer and other	53	-	34	87	7,314	7,401	-	34
	$ 2,345	$ 1,470	$ 1,922	$ 5,737	$ 263,895	$ 269,632	$ -	$ 2,326

	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

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

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

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

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

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

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

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, 2019 and 2018 (in thousands):

	December 31, 2019				
	Total	Pass Credits	Special Mention	Substandard	Doubtful
Single family residential:					
First mortgages	$ 50,812	$ 48,716	$ -	$ 2,096	$ -
HELOC's and equity	14,624	14,606	-	18	-
Commercial, financial, and agricultural:					
Secured	39,571	37,773	294	1,504	-
Unsecured	5,541	5,541	-	-	-
Commercial real estate:					
Owner occupied	74,253	70,042	2,702	1,509	-
Nonowner occupied	61,877	61,783	33	61	-
Multifamily	6,627	6,627	-	-	-
Construction and: development					
Construction	8,688	8,688	-	-	-
Improved land	238	238	-	-	-
Unimproved land	-	-	-	-	-
Consumer	7,401	7,347	-	34	20
Total	$ 269,632	$ 261,361	$ 3,029	$ 5,222	$ 20

	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

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, 2019 (in thousands):

	December 31, 2019						
	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	-	-	-	325	292	308	15
Commercial							
Secured	-	-	-	454	304	303	18
Unsecured	-	-	-	-	-	-	-
Commercial real estate:							
Owner occupied	1,697	1,697	75	1,573	1,446	3,077	133
Nonowner occupied	-	-	-	118	73	81	8
Multifamily	-	-	-	-	-	-	-
Construction and development:							
Construction	-	-	-	-	-	-	-
Improved land	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 1,697	$ 1,697	$ 75	$ 2,470	$ 2,115	$ 3,769	$ 174

	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

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

Troubled Debt Restructurings

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

During the year ended December 31, 2019 the Bank identified three loans, totaling approximately $700,000, which were identified as TDRs due to modifications of loan terms. During the year ended December 31, 2018 the Bank did not identify any loans as TDRs. During the years ended December 31, 2019 and 2018 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, 2019 and 2018 (in thousands):

	2019	2018
Performing TDRs	$ 3,123	$ 2,444
Nonperforming TDRs	254	1,005
Total TDRs	$ 3,377	$ 3,449

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, 2019 and 2018:

	2019	2018
Land	$ 2,250,250	$ 2,250,250
Buildings and improvements	10,149,810	10,100,354
Furniture and equipment	11,209,024	11,013,347
Total	23,609,084	23,363,951
Less accumulated depreciation	(16,274,766)	(15,619,706)
Premises and equipment, net	$ 7,334,318	$ 7,744,245

Depreciation expense for the years ended December 31, 2019 and 2018 was approximately $655,000 and $771,000, respectively.

Note 5. Deposits

The following is a summary of interest-bearing deposits at December 31, 2019 and 2018:

	2019	2018
NOW and money market accounts	$ 100,362,375	$ 112,147,962
Savings accounts	48,227,235	48,637,313
Time deposits of $250,000 or more	54,127,882	21,334,608
Other time deposits	49,322,491	53,806,920
	$ 252,039,983	$ 235,926,803

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 $18,817,000 and $19,592,000 in CDARS deposits at December 31, 2019 and 2018, respectively.

At December 31, 2019, the scheduled maturities of time deposits were as follows:

2020	$ 90,682,462
2021	6,291,719
2022	3,038,039
2023	2,275,721
2024 and thereafter	1,162,432
	$ 103,450,373

Note 6. Other Borrowings

Note Payable

At December 31, 2019, the Company had $1,550,000 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, 2019 and 2018 had a remaining balance of approximately $153,000 and $174,000, 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, 2019 and 2018, total loans pledged to FHLB as collateral were approximately $58,850,000 and $70,508,000, respectively.

Note 6. Other Borrowings, Continued

As of December 31, 2019 and 2018, maturities of the Company's Federal Home Loan Bank Advances are approximately as follows:

Maturity	Rate	2019	2018
December 2019	Variable (2.65% at December 31, 2018)	$ -	$ 13,000,000
August 2026 [1]	N/A	153,205	174,195
		$ 153,205	$ 13,174,195

[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, 2019, the Company has a $103.8 million line of credit facility at the FHLB of which $30.2 million was used for an advance of $153 thousand and a letter of credit to secure public deposits in the amount of $30 million. The Company also had $23.9 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, 2019 and 2018 total pledged loans to the Federal Reserve Bank were approximately $34,380,000 and $36,288,000, respectively. Additionally, the Company has an unsecured $6 million fed funds line of credit.

Note 7. Income Taxes

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

	2019	2018
Current tax expense	$ 974,481	$ 281,989
Deferred tax expense	28,140	841,790
Total income tax expense	$ 1,002,621	$ 1,123,779

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for the years ended December 31, 2019 and 2018 to income before income taxes follows:

	2019	2018
Tax expense at statutory rate	$ 997,717	$ 1,065,556
State income taxes, net of federal benefit	143,044	155,223
Tax exempt interest income, net of disallowed interest expense	(100,268)	(139,674)
Cash surrender value of life insurance income	(57,061)	(56,557)
Impact of federal rate change on deferred taxes	18,959	-
Other	230	99,231
Total	$ 1,002,621	$ 1,123,779

Note 7. Income Taxes, Continued

The components of the net deferred tax asset is as follows as of December 31, 2019 and 2018:

	2019	2018
Deferred tax assets:		
Net operating losses and credits	$ 59,610	$ 173,422
Net unrealized loss on securities available for sale	-	541,187
Loans, principally due to difference in allowance for loan losses and deferred loan fees	331,816	385,103
Nonaccrual loan interest	11,568	3,335
Postretirement benefit accrual, deferred compensation	920,056	907,644
Other real estate owned	49,412	49,703
Premises and equipment	37,163	16,385
Other	284,555	177,057
Gross deferred tax assets	1,694,180	2,253,836
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	9,188	-
Leases	10,243	-
Other	53,228	53,800
Gross deferred tax liabilities	72,659	53,800
Net deferred tax asset	$ 1,621,521	$ 2,200,036

The Company has no net operating loss carryforwards for federal or state income tax purposes at December 31, 2019. The Company has certain state income tax credits of $75,456 at December 31, 2019 which begin to expire in the year 2025. 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 2016 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 each of the years ended December 31, 2019 and 2018, the Company recognized approximately $151,000 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 $402,000 and $218,000 in 2019 and 2018, respectively, in noninterest expenses. The Company recognized approximately $272,000 and $269,000 in 2019 and 2018, respectively, in noninterest income related to the insurance contracts. For the Bonus Plan, the Company incurred expenses of approximately $53,000 in 2019 and $31,000 in 2018.

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, 2019 and 2018, the cash surrender value of these insurance contracts was approximately $10,934,000 and $10,662,000, 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.

Note 9. Commitments and Contingencies, Continued

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

	2019	2018
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 17,653,000	$ 27,255,000
Commercial letters of credit	1,435,000	1,476,000

Leases

As of December 31, 2019, the Company had an operating right of use ("ROU") asset of $2.2 million and an operating lease liability of $2.6 million, which are contained within other assets and other liabilities on the Consolidated Balance Sheets. The lease for the Company's headquarters commenced on November 1, 2015 with a term of 12 years and 2 months. The lease requires monthly payments starting at $26,291 for the first year, increasing 3% per year thereafter. The Company received a twenty month rent abatement as of the lease commencement. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 4.25%. As of December 31, 2019, 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:

2020	$ 356,786
2021	367,164
2022	376,325
2023	385,679
2024 and thereafter	1,641,570
	$ 3,127,524

Rent expense in 2019 and 2018 was approximately $342,000 and $423,000, respectively, and was recorded in occupancy and equipment expense within the Consolidated Statements of Income.

Legal

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

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.

A summary of the status of the Company's stock options as of December 31, 2019 and 2018 and changes during the years ended on those dates is presented below:

	2019				2018			
	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
Granted	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	(9,000)	8.50	-	-
Expired/terminated	-	-	-	-	(6,000)	8.50	-	-
Outstanding, end of year	-	$ -	-	$ -	-	$ -	-	$ -
Options excercisable at year end	-	$ -	-	$ -	-	$ -	-	$ -
Shares available for grant	306,586				306,586			

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. As of December 31, 2019 and 2018, there were no 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, 2019 and 2018.

	Year ended December 31, 2019		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	$ 3,748,419	2,095,111	$ 1.79
Effect of dilutive securities: options to purchase common shares	-	-	
Diluted earnings per share	$ 3,748,419	2,095,111	$ 1.79

	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

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.

Note 12. Fair Value Measurements, Continued

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

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

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

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

Impaired loans - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2019 and 2018, 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.

Note 12. Fair Value Measurements, Continued

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

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

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

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Recurring basis:				
Securities available for sale:				
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	$ -

Note 12. Fair Value Measurements, Continued

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

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

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

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

Loans - 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.

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

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

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.

Note 12. Fair Value Measurements, Continued

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

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

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, 2019 and 2018 (in thousands):

	December 31, 2019				
	Carrying	Fair Value Measurements			
	Amount	Total	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 2,103	$ 2,103	$ 2,103	$ -	$ -
Federal funds sold	12,821	12,821	12,821	-	-
Interest-bearing deposits with banks	24,611	24,611	24,611	-	-
Certificates of deposit	850	850	850	-	-
Investment securities	82,905	82,905	-	82,905	-
Other investments	763	763	763	-	-
Loans, net	268,001	267,547	-	267,547	-
Financial liabilities:					
Deposits	$ 361,358	$ 362,643	$ 258,638	$ 104,005	$ -
Notes payable	1,550	1,550	-	1,550	-
Advances from Federal Home Loan Bank	153	153	-	153	-

	Notional Amount	Estimated Fair Value
Off-balance-sheet financial instruments:		
Commitments to extend credit	$ 17,653	$ -
Commercial letters of credit	2,219	-

Note 12. Fair Value Measurements, Continued

	December 31, 2018				
	Carrying Amount	Fair Value Measurements 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	1,700	-	1,700	-
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 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, 2019, the Company meets all capital adequacy requirements to which it is subject.

Note 13. Stockholders' Equity, Continued

As of December 31, 2019, 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, 2019	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Consolidated	$ 48,980	16.8%	$ 23,353	8.0%	N/A	N/A
Bank	48,516	16.6%	23,353	8.0%	$ 29,191	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	47,349	16.2%	13,136	4.5%	N/A	N/A
Bank	46,885	16.1%	13,136	4.5%	18,974	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	47,349	16.2%	17,515	6.0%	N/A	N/A
Bank	46,885	16.1%	17,515	6.0%	23,353	8.0%
Tier I capital (to average assets)						
Consolidated	47,349	11.1%	17,012	4.0%	N/A	N/A
Bank	46,885	11.0%	16,990	4.0%	21,238	5.0%
December 31, 2018						
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%

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.

The Company paid dividends of $1,054,000 and $526,000 on its common stock in 2019 and 2018, respectively. The annual dividend payout rate was $0.50 and $0.25 per common share in 2019 and 2018, respectively.

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

Note 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, 2019 and 2018, the Company had related party loans totaling approximately $13,248,000 and $13,276,000, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $5,374,000 and $25,064,000 at December 31, 2019 and 2018, respectively.

Note 15. Supplementary Income Statement Information

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

	2019	2018
Professional services, legal	$ 264,435	$ 241,629
Professional services, other	773,082	739,831
Stationery and supplies	129,580	122,783
Data processing	1,632,560	1,722,071
Telephone	306,820	293,995
FDIC insurance premium	102,000	121,000
Security and protection expense	268,468	282,847
Advertising and marketing	153,216	143,387
Other benefit expenses	401,735	217,500
ATM charges	232,657	184,116
Business development	220,914	174,818
Subscription dues	222,920	162,728
Other miscellaneous expenses	1,391,822	1,390,977
	$ 6,100,209	$ 5,797,684

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, 2019	December 31, 2018
Assets		
Cash	$ 730,048	$ 226,083
Investment in banking subsidiary	47,446,205	43,574,389
Other assets	208,875	927,472
Total assets	$ 48,385,128	$ 44,727,944
Liabilities and Stockholders' Equity		
Other liabilities	$ 68,519	$ 75,273
Note payable	1,550,000	1,700,000
Stockholders' equity	46,766,609	42,952,671
Total liabilities and stockholders' equity	$ 48,385,128	$ 44,727,944

Condensed Statements of Income

	For the years ended December 31, 2019	For the years ended December 31, 2018
Income	$ 2,000,042	$ 1,000,000
Expenses	535,946	539,538
Income before tax benefit and equity in undistributed earnings of banking subsidiary	1,464,096	460,462
Income tax benefit	147,452	138,353
Income before equity in undistributed earnings of the subsidiary	1,611,548	598,815
Equity in undistributed earnings of the subsidiary	2,136,871	3,351,480
Net income	$ 3,748,419	$ 3,950,295

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

Condensed Statements of Cash Flows

	For the years ended December 31, 2019	2018
Operating activities		
Net income	$ 3,748,419	$ 3,950,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of banking subsidiary	(2,136,871)	(3,351,480)
Restricted stock based compensation plan	215,452	258,591
Change in other assets	718,603	(136,759)
Change in other liabilities	(6,754)	41,841
Net cash provided by operating activities	2,538,849	762,488
Financing activities		
Payment on note payable	(150,000)	(200,000)
Common stock dividend paid	(1,053,633)	(525,724)
Purchase of treasury stock	(831,251)	(81,497)
Net cash used in financing activities	(2,034,884)	(807,221)
Net increase (decrease) in cash	503,965	(44,733)
Cash, beginning of year	226,083	270,816
Cash, end of year	$ 730,048	$ 226,083

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 March 24, 2020, the date the financial statements were available to be issued and noted no items requiring accrual or disclosure.

Stockholders Information

Corporate Headquarters 230 Peachtree Street, NW Suite 2700 Atlanta, Georgia 30303 www.ctbconnect.com 678.406.4000	Mailing Address Citizens Bancshares Corporation Post Office Box 56943 Atlanta, Georgia 30343 Notice of Annual Meeting May 27, 2020, 11:00 a.m. ET Citizens Trust Bank Corporate Headquarters 230 Peachtree Street, NW Suite 2700 Atlanta, Georgia 30303	Transfer Agency Computershare Investor Services 1.800.568.3476 250 Royall Street Canton, Massachusetts 02021

Board of Directors of Citizens Bancshares Corporation

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

CYNTHIA N. DAY
President and CEO
Citizens Trust Bank

ROBERT L. BROWN, JR.
President
R.L. Brown & Associates

STEPHEN A. ELMORE, SR.
Managing Principal
Elmore CPAs, LLC

C. DAVID MOODY, JR.
Chief Executive Officer
C.D. Moody Construction
Company, Inc.

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

JAMES E. WILLIAMS
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Williams Communications System

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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
First Senior Vice President/Chief Lending Officer

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

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

JAMES R. WILLSON
Vice President, Head of Compliance Division

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