CITIZENS BANCSHARES
CORPORATION

SINCE 1921

PURPOSE.
PERFORMANCE.
POSSIBILITIES

2023 ANNUAL REPORT

Build on momentum and grow

PURPOSE. PERFORMANCE. POSSIBILITIES.

35% Revenue Growth and
30% increase in Net Income

11% Total Loan Growth

Earnings per share (EPS) increased to $6.27 in 2023, a **35%** increase over last year

Capital Ratio metric:
43% Total Capital —
The strength of our company

Rated **#28** by S&P Global in the 100 Best Performing U.S. Community Banks of 2023 under $3 Billion in Assets

Over **95%** of loans originated to Low to Moderate Income and minority households and businesses

Citizens Trust Bank-established **Down Payment Assistance Grant Program** for first-time home buyers

Over **400** community service and volunteer hours supporting 2,800+ community citizens in financial and homeownership education, food, and housing insecurities

BUILD ON MOMENTUM AND GROW.

2023

Shareholders Message

Dear Valued Shareholders,

As we present the Company's 2023 Annual Report, we are excited to share a story of performance, innovation, and unwavering commitment to our purpose. We operate in a dynamic and often unpredictable world, yet we remain steadfast in our mission: to serve as the financial cornerstone of our community by empowering our customers, their families, and their businesses to prosper.

As we reflect on empowering and investing in our communities and what that means to us, this year's theme – "Purpose. Performance. Possibilities." – aligns with these core values that inspire and guide our journey. **PURPOSE** defines who we are and the difference we strive to make. **PERFORMANCE** signifies our commitment to delivering value for our customers, team, and shareholders. **POSSIBILITIES** represent the limitless potential that lies ahead as we dream of and imagine a brighter future for everyone.

We strive to continue progressing in every aspect of our Company so that we keep improving the lives of those around us.

In 2023, we faced a challenging economic environment with rising interest rates, geopolitical uncertainties, and ongoing industry transformation. Despite the complex environment, our Company demonstrated remarkable resilience and adaptability and had the greatest year in the history of our Company. We were extremely proud to have our efforts recognized by the S&P Global ranking of Citizens Trust Bank as #28 in the 100 Best Performing U.S. Community Banks under $3 Billion in assets.

It is a perception that you cannot be a mission-driven bank and have best-in-class industry performance. Yet, we keep pushing the limits and defying the odds while remaining steadfast in our commitment to our mission: empowering families, businesses, and communities to achieve their dreams and have financial success.

We achieved several notable milestones while simultaneously laying the groundwork for future success.

PERFORMANCE...

2023 Financial Highlights:

- Another historic year of pre-tax earnings of $16 million, or a 29% increase, compared to $12 million in 2022
- Record earnings per share of $6.27, or a 35% increase over last year
- Record common stock dividend of $1.00 per share, or $1.8 million, in 2024 compared to a previous record dividend of $0.75 per share in 2023
- A Return on Assets ("ROA") of 1.66% — generated by the company's historic performance combined with an extraordinary efficiency ratio of 50.5%
- Solid total loan growth of 11% driven by another exceptional year of funded loan production with a deliberate focus on customer retention. Over 95% of loans originated were to minority or low-to-moderate income borrowers.
- Strong asset quality as measured by low non-performing assets to total assets of 0.24%
- Positioned for continued growth with a total capital ratio of 43%

We were extremely proud to have our efforts recognized by the S&P Global ranking of Citizens Trust Bank as #28 in the 100 Best Performing U.S. Community Banks

POSSIBILITIES...

Investing in Our Future: Creating Greater Access

As we continue our strategy to increase wallet share with existing customers and expand into new markets similar in make-up to our current customer composition, we are building infrastructure to accommodate the anticipated growth.

During 2023, we saw great promise in our pursuit of enhancing our digital solutions. Customers are responding positively with an increase in our business and consumer online banking, by 16% and 7%, respectively, and a 13% increase in Zelle customer utilization. We launched:

1) Contactless debit cards with the ability to connect to Apple and Google digital wallets. This creates a better customer experience and allows for faster transactions and a safer and more secure checkout, and

2) More sophisticated strategies to improve engagements with our online and digital communities. One example is through a third-party online vendor relationship that provides an auto-decisioning platform allowing us to deliver fast, convenient loan solutions to consumers and businesses.

Further, in our commitment to facilitating the dream of homeownership, we simplified the mortgage loan application process with a new digital loan portal allowing customers in all 50 states to apply for a mortgage loan entirely online.

For other loan products, in 2023, we began our pursuit of engaging a fintech partnership to optimize, automate, and accelerate the loan decisioning process to enhance the customer experience while integrating fraud prevention and risk mitigating attributes. We have selected a partner and are anticipating a 3rd quarter 2024 launch.

We remain committed to transforming how we do business and fostering a culture of innovation.

We remain committed to transforming how we do business and fostering a culture of innovation. As we look forward to 2024, we are already continuing our progress by:

- Implementing a new digital banking platform with a modern user interface that anticipates customer's needs, streamlines workflow, and works seamlessly on any device.
- Launching instant issue debit cards that allow our customers to receive their cards immediately. This will enhance the customer's experience, increase activation rate, reduce fraud, and provide a competitive advantage.
- Preparing the launch of a new digital marketing campaign in collaboration with our digital marketing partners to create a brand-differentiating strategy to bolster brand awareness, promote customer acquisition, increase wallet share, and deepen relationships with existing clients.

We are excited about the strides we are making in our delivery channels and building infrastructure for expansion. We are positioning our Company for scale and future success by developing tools and deploying resources to enhance client engagement and bring greater efficiencies into our business model. But most importantly, we are investing in high-performance teammates. Teammates who can execute our vision, build relationships, and create an exceptional personalized customer experience.

PURPOSE...

Investing in our Community: Our Mission

Though we are extremely proud of our financial performance, we are equally proud of our partnership and impact in the communities we serve. We remain true to our mantra: We are not just in the Community, we are a part of the Community. Our legacy is founded on the principles of economic equality and well-being, and we are dedicated to fulfilling our mission of empowering communities, families, and future generations to achieve financial success and overall well-being.

We are positioning our Company for scale and future efficiencies.

We demonstrated our commitment by:

- Extending over $82 million in community loans to consumers and small businesses, contributing to job growth and economic revitalization and promoting strong community ecosystems.
- Committed $100,000 to our Citizens Trust Bank-funded Down Payment Assistance Grant Program for first-time home buyers supporting homeownership and addressing the widening wealth gap.
- Dedicated over 400 community service and volunteer hours — supporting over 2,800 community citizens through financial and homeownership education and addressing food, and housing insecurities.

Furthermore, through our involvement in the community, we continue to provide financial literacy and money management skills to small businesses and community youth and give a vision of hope for future generations through internships and corporate exposure.

Our collaboration with the community and respected community partners allowed us to provide much-needed support and continue to enrich our understanding of the challenges faced by our communities. We are inspired by the progress made and continue to be dedicated to our efforts to create positive change.

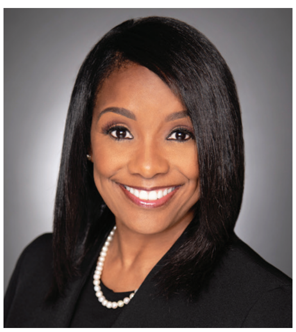
A Message of Confidence

In a dynamic and competitive landscape, we are confident that our Company is well positioned for continued success. We remain dedicated to our core values of purpose, performance, and possibilities, and are committed to delivering long-term value for our shareholders, customers, teammates, and the communities we serve.

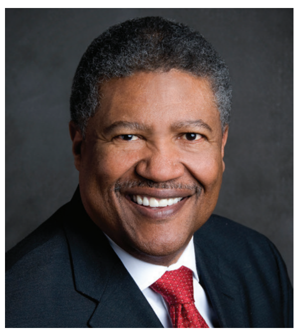
We are confident that by staying true to our purpose, delivering exceptional performance, and embracing endless possibilities, we will continue to grow and thrive.

We thank our teammates and board of directors for their unwavering commitment to the success of our Company and we thank you, our fellow shareholders, for your continued support. Together, we will continue to build a better future, as we build on the momentum and grow with purpose and passion.

Sincerely,



Cynthia N. Day
President and CEO
Citizens Trust Bank



Ray M. Robinson
Chairman of the Board
Citizens Bancshares Corporation

We are not just in the Community, we are a part of the Community. We are dedicated to fulfilling our mission of empowering communities, families, and future generations to achieve financial success.

Financials

SELECTED CONSOLIDATED FINANCIAL DATA FOR
CITIZENS BANCSHARES CORPORATION

As of and for the years ended December 31, (amounts in thousands, except per share data and financial ratios)	**2023**	**2022**	**2021**
STATEMENT OF INCOME DATA:			
Net interest income	$34,222	$23,722	$16,007
Income before income tax expense	$15,969	$12,417	$5,216
Net income	$12,295	$9,437	$4,061
Net income available to common shareholders	$12,025	$9,206	$3,923
PER SHARE DATA:			
Net income per common share—basic	$6.27	$4.64	$1.97
Book value per common share	$30.34	$24.97	$27.04
Cash dividends paid per common share	0.75	$0.50	$0.40
BALANCE SHEET DATA:			
Loans, net of unearned income	$378,717	$340,855	$284,761
Deposits	$554,796	$620,208	$581,421
Advances from Federal Home Loan Bank	$65	$3,088	$110
Total assets	$745,638	$807,136	$668,919
Average stockholders' equity	$173,229	$127,265	$67,508
Average assets	$739,344	$753,088	$624,701
RATIOS:			
Income before income tax expense to average assets	2.16%	1.65%	0.83%
Net income to average assets	1.66%	1.25%	0.65%
Net income to average stockholders' equity	7.10%	7.42%	6.02%
Dividend payout ratio per common share	12.41%	10.79%	19.62%
Average stockholders' equity to average assets	23.43%	16.90%	10.81%
Tier 1 capital ratio (to risk weighted assets)	42%	48%	24%
Total capital ratio	43%	48%	25%

Citizens Bancshares Corporation and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2023 and 2022

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elliott davis

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Citizens Bancshares Corporation and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years ended December 31, 2023 and 2022, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company has elected to change its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326*). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Elliott Davis, LLC

Columbia, South Carolina
March 29, 2024

Citizens Bancshares Corporation and Subsidiary

Consolidated Balance Sheets

As of December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	$ 1,605,692	$ 1,760,019
Federal funds sold	33,427,536	31,775,039
Interest bearing deposits with banks	107,675,376	226,569,085
Cash and cash equivalents	142,708,604	260,104,143
Certificates of deposit	250,000	350,000
Investment securities available for sale at fair value	199,206,976	177,733,712
Other investments	995,350	888,450
Loans receivable, net of allowance for credit losses of $7,568,575 and $2,986,370 at December 31, 2023 and 2022, respectively	371,148,879	337,868,750
Premises and equipment, net	6,043,453	6,347,223
Cash surrender value of life insurance	11,919,272	11,619,831
Right-of-use asset	1,205,409	1,469,455
Other assets	12,160,203	10,754,551
Total assets	$ 745,638,146	$ 807,136,115
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 241,840,320	$ 244,255,494
Interest-bearing deposits	312,955,233	375,952,309
Total deposits	554,795,553	620,207,803
Accrued expenses and other liabilities	8,447,499	6,205,909
Bank owned life insurance liability	3,928,606	3,676,784
Lease liability	1,474,528	1,790,196
Advances from Federal Home Loan Bank	64,921	3,088,419
Total liabilities	568,711,107	634,969,111
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, $1,000 par value; 10,000,000 total shares authorized; 122,700 shares issued and outstanding at December 31, 2023 and 2022	122,700,000	122,700,000
Common stock, $1 par value; 20,000,000 shares authorized; 2,475,766 and 2,453,876 shares issued and outstanding at December 31, 2023 and 2022, respectively	2,475,766	2,453,876
Nonvested restricted common stock	(790,391)	(161,911)
Additional paid-in capital	10,111,562	9,088,128
Retained earnings	64,333,865	54,942,363
Treasury stock, at cost, 688,573 and 472,617 shares at December 31, 2023 and 2022, respectively	(12,103,923)	(4,513,354)
Accumulated other comprehensive loss	(9,799,840)	(12,342,098)
Total stockholders' equity	176,927,039	172,167,004
Total liabilities and stockholders' equity	$ 745,638,146	$ 807,136,115

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022

	2023	2022
Interest income		
Loans, including fees	$ 22,238,484	$ 16,236,840
Investment securities:		
Taxable	5,829,632	3,342,055
Non-taxable	53,660	66,205
Dividends	52,694	40,270
Federal funds sold	1,697,703	495,495
Interest-bearing deposits	6,323,839	4,175,576
Total interest income	36,196,012	24,356,441
Interest expense		
Deposits	1,972,809	633,172
Other borrowings	824	783
Total interest expense	1,973,633	633,955
Net interest income	34,222,379	23,722,486
Provision for credit losses	3,678,629	160,000
Net interest income after provision for credit losses	30,543,750	23,562,486
Noninterest income		
Service charges on deposit accounts	1,499,368	1,659,053
Debit and credit card income	1,305,591	1,449,224
Gain on sale of other real estate owned	-	4,762
Loss on sale of repossessed assets	(18,532)	-
Mortgage origination fees	256,274	355,482
Income and fees from automated teller machines (ATMs)	119,607	132,822
Investment fee income	445,581	185,355
Bank owned life insurance	299,441	285,482
Other operating income	657,303	479,139
Grant income	937,350	1,996,964
Total noninterest income	5,501,983	6,548,283
Noninterest expense		
Salaries and employee benefits	9,809,927	9,084,112
Occupancy and equipment	1,788,236	1,776,450
Other real estate owned	500	1,245
Data processing expense	1,443,667	1,188,288
Professional services	1,292,570	1,124,701
Other benefit expense	487,590	487,880
Other operating expenses	5,254,193	4,030,732
Total noninterest expense	20,076,683	17,693,408
Income before income tax expense	15,969,050	12,417,361
Income tax expense	3,674,119	2,980,167
Net income	12,294,931	9,437,194
Preferred stock dividends	(270,000)	(231,528)
Net income available to common shareholders	$ 12,024,931	$ 9,205,666
Net income per common share - basic	$ 6.27	$ 4.64
Net income per common share - diluted	$ 6.10	$ 4.51
Weighted average outstanding shares		
Basic	1,917,102	1,986,031
Diluted	1,971,040	2,039,117

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 12,294,931	$ 9,437,194
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the period	2,843,287	(15,823,311)
Tax effect	(301,029)	3,576,494
Other comprehensive income (loss), net of tax	2,542,258	(12,246,817)
Comprehensive income (loss)	$ 14,837,189	$ (2,809,623)

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2023 and 2022

	Preferred Stock		Common Stock		Nonvoting Common Stock		Nonvested Restricted Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Amount		
Balance, December 31, 2021	22,000	$22,000,000	2,343,676	$ 2,343,676	90,000	$ 90,000	$ (226,916)	$ 8,909,098	$ 46,730,201	(457,461)	$ (4,314,547)	$ (95,281)	$ 75,436,231
Net income	-	-	-	-	-	-	-	-	9,437,194	-	-	-	9,437,194
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(12,246,817)	(12,246,817)
Net change in restricted stock	-	-	-	-	-	-	65,005	(32,595)	-	-	-	-	32,410
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(15,156)	(198,807)	-	(198,807)
Issuance of common stock	-	-	20,200	20,200	-	-	-	211,625	-	-	-	-	231,825
Issuance of preferred stock	100,700	100,700,000	-	-	-	-	-	-	-	-	-	-	100,700,000
Conversion of nonvoting common stock to voting common stock	-	-	90,000	90,000	(90,000)	(90,000)	-	-	-	-	-	-	-
Dividends paid on common stock	-	-	-	-	-	-	-	-	(993,504)	-	-	-	(993,504)
Dividends paid on preferred stock	-	-	-	-	-	-	-	-	(231,528)	-	-	-	(231,528)
Balance, December 31, 2022	122,700	122,700,000	2,453,876	2,453,876	-	-	(161,911)	9,088,128	54,942,363	(472,617)	(4,513,354)	(12,342,098)	172,167,004
Adoption of ASC 326	-	-	-	-	-	-	-	-	(1,140,702)	-	-	-	(1,140,702)
Net income	-	-	-	-	-	-	-	-	12,294,931	-	-	-	12,294,931
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	2,542,258	2,542,258
Net change in restricted stock	-	-	-	-	-	-	(628,480)	811,382	-	-	-	-	182,902
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(215,956)	(7,590,569)	-	(7,590,569)
Issuance of common stock	-	-	21,890	21,890	-	-	-	212,052	-	-	-	-	233,942
Dividends paid on common stock	-	-	-	-	-	-	-	-	(1,492,727)	-	-	-	(1,492,727)
Dividends paid on preferred stock	-	-	-	-	-	-	-	-	(270,000)	-	-	-	(270,000)
Balance, December 31, 2023	122,700	$122,700,000	2,475,766	$ 2,475,766	-	$ -	$ (790,391)	$ 10,111,562	$ 64,333,865	(688,573)	$ (12,103,923)	$ (9,799,840)	$ 176,927,039

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$ 12,294,931	$ 9,437,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,678,629	160,000
Depreciation	619,927	607,318
Amortization and accretion of investment securities available for sale, net	(471,459)	(37,857)
Provision (benefit) for deferred income taxes	(1,451,314)	(3)
Gain on sale of other real estate owned	-	(4,762)
Loss on sale of repossessed vehicles	18,532	-
Restricted stock compensation, net	416,844	264,235
Increase in cash surrender value of life insurance	(299,441)	(285,482)
Change in assets and liabilities:		
Change in other assets and right-of-use asset	401,385	(446,866)
Change in accrued expenses, other liabilities and lease liabilities	1,831,219	(339,426)
Net cash provided by operating activities	17,039,253	9,354,351
Cash flows from investing activities		
Proceeds from certificates of deposit	100,000	-
Proceeds from the sales, maturities and paydowns of securities available for sale	24,962,061	23,804,090
Purchases of securities available for sale	(43,120,579)	(122,029,158)
Net increase in other investments	(106,900)	(207,400)
Net increase in loans	(38,145,641)	(56,218,408)
Purchases of premises and equipment	(365,344)	(204,102)
Proceeds from sale of repossessed vehicles	30,655	-
Proceeds from sale of other real estate owned	-	4,762
Net cash used in investing activities	(56,645,748)	(154,850,216)
Cash flows from financing activities		
Net change in deposits	(65,412,250)	38,786,910
Net (decrease) increase in Federal Home Loan Bank advances	(3,023,498)	2,978,474
Issuance of preferred stock	-	100,700,000
Common stock dividend paid	(1,492,727)	(993,504)
Preferred stock dividend paid	(270,000)	(231,528)
Purchase of treasury stock	(7,590,569)	(198,807)
Net cash (used in) provided by financing activities	(77,789,044)	141,041,545
Net decrease in cash and cash equivalents	(117,395,539)	(4,454,320)
Cash and cash equivalents, beginning of year	260,104,143	264,558,463
Cash and cash equivalents, end of year	$ 142,708,604	$ 260,104,143
Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	$ 1,711,191	$ 604,395
Income taxes	$ 5,620,000	$ 2,240,000
Supplemental schedule of non-cash investing and financing activities		
Change in unrealized loss on investment securities available for sale	$ 2,843,287	$ (15,823,311)
Adoption of ASC 326, net of tax	$ (1,140,702)	$ -

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. On May 4, 2023, Citizens Bancshares Corporation formed a new subsidiary, CTB Financial Services, LLC, to hold problem assets. During the year ended December 31, 2023, the Company transferred one non-performing loan to CTB Financial Services, LLC which had an outstanding balance of approximately $5.9 million and a reserve of $3 million at December 31, 2023.

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 credit losses, allowance for unfunded commitments, the valuation of allowances associated with the recognition of deferred tax assets, valuation of investment securities 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) periodically 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. There was no reserve requirement as of December 31, 2023 and 2022.

Interest-bearing deposits with banks:

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

Other investments:

Other investments consist of FHLB stock and FRB 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 (loss). The Company had no investment securities classified as trading or held to maturity at December 31, 2023 or 2022.

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. Management measures expected credit losses on held to maturity debt securities on a collective basis by major security type: mortgage-backed securities or state and local governments. Management evaluates all available for sale debt securities in an unrealized loss position on a quarterly basis. With available for sale debt securities, the security is written down to fair value with the entire loss is recorded in earnings if the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security. If the above criteria is not met for available for sale debt securities and the decline in fair value is the result of credit losses, an allowance for credit losses is recorded based on the difference between the present value of expected cash flows and the amortized cost basis of the security. There was no allowance for credit losses for securities recorded during 2023.

Loans receivable and allowance for credit losses:

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

Management considers a loan to be individually evaluated 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. Individually evaluated loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral less estimated disposal costs if the loan is collateral dependent.

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable and allowance for credit losses, continued:

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

The allowance for credit losses is maintained at a level that management believes is adequate to cover management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is a valuation allowance for estimated credit losses inherent in the loan portfolio, increased by the provision for credit losses and decreased by charge-offs, net of recoveries. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. 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 uncollectibility of a loan balance is confirmed. Subsequent recoveries are credited to the allowance for credit losses.

Premises and equipment:

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

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

Leases:

In accordance with Accounting Standards Codification (ASC) 842 *Leases*, the Company determines if a contractual arrangement is a lease at inception. Operating leases are included as operating right-of-use (ROU) assets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Currently, the Company does not have any finance leases.

Note 1. Summary of Significant Accounting Policies, Continued

Other real estate owned:

Other real estate owned (OREO) is reported at the lower of cost or fair value less estimated disposal costs, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. Any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is treated as a charge-off against the allowance for loan losses. Any subsequent declines in value are charged to earnings. The Company did not have any other real estate owned during the year ended December 31, 2023. The Company had other real estate owned in 2022 that was carried with a value of zero and was sold in 2022.

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Authoritative guidance governing the testing of indefinite lived intangible assets for impairment allows the option to first assess Goodwill by utilizing qualitative factors in determining if it is more likely than not that carrying value exceeds fair value. If, through this analysis, it is determined that it is more likely than not that carrying value exceeds fair value, then the next step requires estimation of the fair value of the reporting unit by quantitative assessment. If the fair value of the reporting unit exceeds its carrying value, no further testing is required. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. The Company has performed the annual impairment analysis as of December 31, 2023 and concluded no impairment exists. The carrying amount of goodwill was $362,139 as of December 31, 2023 and 2022, respectively, and is included within other assets on the Consolidated Balance Sheets.

Income taxes:

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Preferred stock:

During June 2022, the Company sold 95,700 shares of Series G Preferred Stock. The stock was issued to the United State Department of the Treasury (U.S. Treasury) through their Emergency Capital Investment Program (ECIP). Dividends on the Series G Preferred Stock are not cumulative. The dividend rate is set based on a schedule set by the U.S. Treasury and can vary based on the Company meeting certain lending thresholds. Dividends begin to accrue after the second year the shares are outstanding and are paid quarterly. During September 2022, the Company sold 5,000 shares of Series H Preferred Stock. Dividends on the Series H Preferred Stock are not cumulative, and holders of the Series H Preferred Stock are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase price per share.

The following table summarizes the various series of preferred stock issued:

	Shares
Series D	5,000
Series E	11,500
Series F	5,500
Series G	95,700
Series H	5,000
Total	122,700

Series D, E, F and H have the same terms. They are non-cumulative and the holders are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase share price. Series G was issued to the U. S. Treasury through their Emergency Capital Investment Program. Dividends are not cumulative and the dividend rate is set based on a schedule set by the U.S. Treasury and can vary based on the Company meeting certain lending thresholds.

Net income available to common stockholders:

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

During the year ended December 31, 2023, the Company received and recognized $937,000 through the Community Development Financial Institution (CDFI) program grant.

During the year ended December 31, 2021, the Company received $1.8 million through the Community Development Financial Institution (CDFI) Rapid Resource Grant program. There are specific performance obligations the Company must achieve in order for these funds to be recognized as revenue. These obligations were met during the year ended December 31, 2022, and as such, $1.8 million of income was recorded in 2022.

Note 1. Summary of Significant Accounting Policies, Continued

Stock-based compensation:

The market price of the Company's common stock is utilized at the date of grant for the determination of fair value for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period, using the market share price on the date of grant. The unrecognized expense related to granted and unvested restricted stock totals $805,000, as of December 31, 2023. There were 21,890 shares that fully vested and were exercised in 2023.

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 shares vested 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 shares vested on January 1, 2020.

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

In 2021, 17,500 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of $13.75. These shares will vest 100% (cliff vesting) on May 26, 2024. In addition, 3,500 nonvested restricted shares of common stock were granted on May 26, 2021 to members of the Board of Directors, excluding the CEO, at a grant price of $13.75. These shares vested on May 26, 2022.

In 2022, 20,000 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of $10.46. These shares will vest 100% (cliff vesting) on May 26, 2025. In addition, 4,200 nonvested restricted shares of common stock were granted on May 26, 2022 to members of the Board of Directors, excluding the CEO, at a grant price of $10.46. These shares vest on May 26, 2023.

In 2023, 20,500 nonvested restricted shares of common stock were granted to certain officers and the CEO at a grant price of $36.85. These shares will vest 100% (cliff vesting) on May 25, 2026. 4,200 nonvested restricted shares of common stock were granted on May 25, 2023 to members of the Board of Directors, excluding the CEO, at a grant price of $36.85. These shares vest on May 25, 2024. 1,000 nonvested restricted shares of common stock were granted on October 26, 2023 to a member of the Board of Directors at a grant price of $35.50. These shares vest on May 26, 2024.

Comprehensive income:

The Company reports comprehensive income in accordance with 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 (Loss). The only component of comprehensive income relates to the change in value of available for sale securities.

Note 1. Summary of Significant Accounting Policies, Continued

Fair values of financial instruments:

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

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.

Revenue recognition:

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

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

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

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

Recently adopted accounting pronouncements:

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

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $1.2 million, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $336,000, which is recorded within Other Liabilities. The Company recorded a net decrease to retained earnings of $1.1 million as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of tax. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (Incurred Loss).

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326 (in thousands):

	January 1, 2023 as reported under ASC 326	December 31, 2022 pre-ASC 326 adoption	Impact of ASC 326 adoption
Assets:			
Loans, at amortized cost	$ 340,855	$ 340,855	$ -
Allowance for credit losses on loans:			
Commercial, financial and agricultural	943	1,198	(255)
Commercial real estate	1,325	898	427
Residential first mortgages	886	388	498
HELOC's and equity	28	77	(49)
Construction and development	864	209	655
Consumer and other	137	216	(79)
Allowance for credit losses on loans	$ 4,183	$ 2,986	$ 1,197
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 396	$ 60	$ 336

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due (120 days for consumer loans), or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Allowance for Credit Losses – Held to Maturity Securities
Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The Company did not have any held to maturity securities at December 31, 2023.

The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Management classifies the held-to-maturity portfolio into the following major security types: mortgage-backed securities, state and local governments or corporate.

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

Allowance for Credit Losses – Available for Sale Securities
For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled $1.0 million at December 31, 2023 and was excluded from the estimate of credit losses.

Loans
Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $1.6 million at December 31, 2023 and was reported in other assets on the Consolidated Balance Sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

Allowance for Credit Losses - Loans
The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using the specified methodologies:

- Commercial, financial, and agricultural
  - Other Commercial Loans – Non-Real Estate – discounted cash flow
- Commercial real estate
  - Other Commercial Loans – Real Estate – discounted cash flow
  - Church Loans – discounted cash flow
  - Convenience Stores – discounted cash flow
- Residential first mortgages
  - 1-4 Residential – discounted cash flow
  - Mortgages (serviced by third parties) – weighted average remaining life
  - Residential Mortgages – discounted cash flow
- HELOCs and equity
  - Consumer 1-4 Family Junior Liens – discounted cash flow
  - Consumer Equity Lines of Credit – discounted cash flow
- Construction and development
  - Construction/Development – discounted cash flow
- Consumer and other
  - Consumer – Personal Lines of Credit – discounted cash flow
  - Consumer Installment Loans – discounted cash flow
  - Credit Cards – weighted average remaining life

Each segment is further delineated by risk ratings, non-accrual status and loans over 90 days past due. Outstanding balance and exposure are calculated.

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

Management is using the Discounted Cash Flow (DCF) method for the bulk of its loan portfolio. This methodology was chosen as it allows for incorporating a reasonable and supportable forecast, the analysis aligns well with other calculations outside the ACL estimation, and peer data is available for certain inputs (loss rates). The discounted cash flow methodology determines the loss estimate by calculating the value of expected cash flows over the life of the loan and comparing it to the current balance outstanding of the loan. Expected losses are calculated via a gross loss rate and recovery rate assumption. Expected losses are calculated using regression modeling. Independent variables used in the regression model include the Company's own data and peer institution data from FFIEC Call Report filings. Management has prioritized internal data but uses relevant peer data due to statistical relevance concerns, historical data limitations and the inability to secure through the cycle loan level data. Modeling the allowance for credit losses requires incorporating expected prepayments/curtailments into the model. Peer data, provided by a third-party model provider/expert is used to develop benchmark prepayment and curtailment rates, which are used due to historical data constraints. Management has identified a correlation between historical loss experience and the average unemployment rate for the Company's primary markets: Atlanta and Birmingham. Management has elected to forecast lifetime credit losses using this correlation. Future losses will be calculated using the forecasted unemployment rate for the next four quarters. For the remaining amortization period, the forecast reverts to historical loss rates on a straight-line basis.

Management has elected to use the Weighted Average Remaining Life (WARM) methodology for its credit card and mortgage loans serviced by others loan portfolios. This methodology is appropriate due to the uniformity of underwriting, similarity of life of loan, prepayment and curtailment rates, and availability of relevant data. This methodology calculates expected losses by applying an average annual charge-off rate that is determined by using historical loss information. The weighted average of the assets' contractual terms is used to estimate the pool's remaining contractual term. The expected loss is calculated using the average annual net-charge-off rates and the amortization-adjusted remaining life with qualitative factor adjustments. Loss rates are calculated using the following approaches: most recent four quarter, three-year rolling average and average loan balance. These three views allow for a review of current loss, recent prior loss and loss over a longer period.

There have been no changes to either methodology since adopted January 1, 2023. There have not been any significant purchases, sales or reclassifications of loans held for investment during 2023.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for changes in lending policies and procedures, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, lending management experience and risk tolerance, loan review and audit results, external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

Allowance for Credit Losses – Unfunded Commitments
Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's Consolidated Balance Sheets.

In March 2022, the FASB issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoptions is permitted. Adoption of the amendment requires disclosure of loans by year originated, removes the troubled debt restructured standard and adds reporting of modifications to borrowers experiencing financial difficulty.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the 2023 presentation. Such reclassifications had no impact on net income or stockholders' equity as previously reported.

Note 2. Investment Securities

Securities available for sale consisted of the following:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	$ 13,971,080	$ -	$ (1,170,328)	$ 12,800,752
U.S. Treasury securities	52,320,540	-	(543,586)	51,776,954
Agency securities	21,046,262	13,910	(1,212,992)	19,847,180
Mortgage-backed securities	120,167,768	64,343	(9,685,884)	110,546,227
Corporate securities	4,862,981	-	(627,118)	4,235,863
	$ 212,368,631	$ 78,253	$ (13,239,908)	$ 199,206,976

Note 2. Investment Securities, Continued

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	$ 14,341,630	$ 735	$ (1,647,553)	$ 12,694,812
U.S. Treasury securities	64,357,628	-	(1,368,174)	62,989,454
Agency securities	7,946,537	-	(1,465,236)	6,481,301
Mortgage-backed securities	102,099,251	2	(10,837,167)	91,262,086
Corporate securities	4,993,608	-	(687,549)	4,306,059
	$ 193,738,654	$ 737	$ (16,005,679)	$ 177,733,712

The Company did not have an allowance for credit losses for the years ending December 31, 2023 and 2022.

The amortized costs and fair values of investment securities at December 31, 2023, 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	$ 37,370,953	$ 37,109,767
Due after one year but within five years	24,087,459	23,360,044
Due after five years but within ten years	21,609,116	19,535,688
Due after ten years	9,133,336	8,655,250
Mortgage-backed securities	120,167,768	110,546,227
Total	$ 212,368,632	$ 199,206,976

There were no securities sold in 2023 or 2022. Investment securities with carrying values of approximately $88.0 million and $86.9 million at December 31, 2023 and 2022, respectively, were pledged to secure public funds on deposit, for other purposes as required by law and advances through the FHLB.

Note 2. Investment Securities, Continued

The following table shows the gross unrealized losses and estimated fair value of available sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2023 and December 31, 2022:

	December 31, 2023					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	$ 372,245	$ (58)	$ 12,428,507	$ (1,170,270)	$ 12,800,752	$ (1,170,328)
U.S. Treasury securities	-	-	51,776,954	(543,586)	51,776,954	(543,586)
Agency securities	6,409,330	(17,466)	6,759,082	(1,195,526)	13,168,412	(1,212,992)
Mortgage-backed securities	12,613,888	(101,784)	82,762,153	(9,584,100)	95,376,041	(9,685,884)
Corporate securities	-	-	4,235,863	(627,118)	4,235,863	(627,118)
	$ 19,395,463	$ (119,308)	$157,962,559	$(13,120,600)	$177,358,022	$(13,239,908)

	December 31, 2022					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	$ 5,922,359	$ (297,635)	$ 6,395,032	$ (1,349,918)	$ 12,317,391	$ (1,647,553)
U.S. Treasury securities	62,989,454	(1,368,174)	-	-	62,989,454	(1,368,174)
Agency securities	-	-	6,481,301	(1,465,236)	6,481,301	(1,465,236)
Mortgage-backed securities	58,120,074	(3,763,211)	33,141,335	(7,073,956)	91,261,409	(10,837,167)
Corporate securities	1,614,605	(102,393)	2,691,454	(585,156)	4,306,059	(687,549)
	$128,646,492	$ (5,531,413)	$ 48,709,122	$(10,474,266)	$177,355,614	$(16,005,679)

Unrealized losses on corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. Three corporate securities, seventeen municipal securities, and six private label mortgage backed securities have unrealized losses as of December 31, 2023.

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

Note 2. Investment Securities, Continued

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 does not believe credit risk associated with correspondent accounts to be significant.

Note 3. Loans Receivable and Allowance for Credit Losses

The major classification of loans receivable are summarized as follows at December 31, 2023 and 2022 (in thousands):

	2023	2022
Commercial, financial and agricultural	$ 101,445	$ 86,603
Commercial real estate	166,700	151,647
Residential first mortgages	63,199	52,872
HELOCs and equity	5,954	15,825
Construction and development	30,058	27,326
Consumer and other	11,361	6,582
	378,717	340,855
Allowance for credit losses	(7,568)	(2,986)
Total loans	$ 371,149	$ 337,869

Overdrafts are reclassified to the Consumer and other loan account above.

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

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

- The Company's loans to area churches were approximately $43.0 million and $45.3 million at December 31, 2023 and 2022, respectively, which are generally secured by real estate.
- The Company's loans to area hotels were approximately $19.3 million and $31.4 million at December 31, 2023 and 2022, respectively, which are generally secured by real estate.

During the years ended December 31, 2023 and 2022, the Bank recognized approximately $130 thousand and $405 thousand of processing fees, respectively, for PPP loans originated in 2021 and 2020. For the year ending December 31, 2023, the Bank processed 5 forgiveness applications with a total loan balance of approximately $102,000. For the year ending December 31, 2022, the Bank processed 135 PPP forgiveness applications with a total loan balance of approximately $9.5 million. As of December 31, 2023, the Bank's PPP loans totaled approximately $2.0 million to 11 customers. As of December 31, 2022, the Bank's PPP loans totaled approximately $6.4 million to 74 customers. PPP loans are included within "Commercial, financial, and agricultural" loans.

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, 2023 and 2022 (in thousands):

	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Current	Total Loans Receivable
Commercial, financial and agricultural	$ 7	$ 91	$ 44	$ 5,975	$ 95,328	$ 101,445
Construction and development	-	-	-	131	29,927	30,058
Residential first mortgages	1,763	1,185	-	387	59,864	63,199
HELOCs and equity	109	-	-	78	5,767	5,954
Commercial real estate	2,179	55	-	1,093	163,373	166,700
Consumer and other	36	35	36	46	11,208	11,361
	$ 4,094	$ 1,366	$ 80	$ 7,710	$ 365,467	$ 378,717

	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Current	Total Loans Receivable
Commercial, financial and agricultural	$ 1,823	$ 75	$ -	$ 168	$ 84,537	$ 86,603
Construction and development	423	575	-	-	26,328	27,326
Residential first mortgages	158	224	-	467	52,023	52,872
HELOCs and equity	21	-	-	62	15,742	15,825
Commercial real estate	3,293	189	-	374	147,791	151,647
Consumer and other	181	16	39	145	6,201	6,582
	$ 5,899	$ 1,079	$ 39	$ 1,216	$ 332,622	$ 340,855

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.

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

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.

HELOCs and Equity - This portfolio consists of revolving lines of credit secured by a 1-4 family residence and loans secured by 1-4 family residences where the lien is in a junior position.

Consumer and other - 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.

Residential first mortgages - 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.

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.

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 individually evaluated for impairment, if necessary. 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:

Pass: Loans considered pass are not past due and are not exhibiting any deterioration in the credit worthiness of the borrower.

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.

Classified: Classified loans are rated substandard or doubtful on the Company's risk rating methodology.

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 table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023 (in thousands):

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Commercial, financial and agricultural						
Pass	$ 42,895	$ 29,133	$ 10,167	$ 10,446	$ 2,638	$ 95,279
Special Mention	5,948	-	38	-	-	5,986
Classified	132	26	-	-	22	180
Total commercial, financial and agricultural	$ 48,975	$ 29,159	$ 10,205	$ 10,446	$ 2,660	$ 101,445
Current period gross write-offs	$ 52	$ -	$ -	$ -	$ -	$ 52
Construction and development						
Pass	$ 15,719	$ 6,875	$ 7,065	$ -	$ 199	$ 29,858
Special Mention	-	-	-	-	-	-
Classified	-	-	70	130	-	200
Total construction and development	$ 15,719	$ 6,875	$ 7,135	$ 130	$ 199	$ 30,058
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Residential first mortgages						
Pass	$ 3,337	$ 4,320	$ 36,306	$ 17,505	$ 472	$ 61,940
Special Mention	207	-	40	-	-	247
Classified	54	-	-	709	249	1,012
Total residential first mortgages	$ 3,598	$ 4,320	$ 36,346	$ 18,214	$ 721	$ 63,199
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
HELOCs and equity						
Pass	$ 336	$ 101	$ 31	$ 91	$ 5,267	$ 5,826
Special Mention	-	-	-	-	-	-
Classified	-	13	12	103	-	128
Total HELOCs and equity	$ 336	$ 114	$ 43	$ 194	$ 5,267	$ 5,954
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate						
Pass	$ 46,817	$ 44,465	$ 34,075	$ 28,417	$ 7,360	$ 161,134
Special Mention	-	338	-	76	1,099	1,513
Classified	3,046	261	127	497	122	4,053
Total commercial real estate	$ 49,863	$ 45,064	$ 34,202	$ 28,990	$ 8,581	$ 166,700
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Consumer and other						
Pass	$ 6,780	$ 962	$ 362	$ 271	$ 2,879	$ 11,254
Special Mention	-	-	-	-	-	-
Classified	-	-	-	46	61	107
Total consumer and other	$ 6,780	$ 962	$ 362	$ 317	$ 2,940	$ 11,361
Current period gross write-offs	$ 51	$ -	$ 10	$ 33	$ 181	$ 275

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

The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2022 (in thousands):

	December 31, 2022			
	Pass	Special Mention	Classified	Total
Residential first mortgages	$ 52,182	$ -	$ 690	$ 52,872
HELOCs and equity	15,643	-	182	15,825
Commercial, financial and agricultural				
Secured	81,037	-	1,607	82,644
Unsecured	3,959	-	-	3,959
Commercial real estate				
Owner occupied	76,763	2,093	1,208	80,064
Non-owner occupied	60,395	-	270	60,665
Multifamily	10,918	-	-	10,918
Construction and development				
Construction	26,195	-	155	26,350
Improved land	976	-	-	976
Consumer and other	6,459	-	123	6,582
Total	$ 334,527	$ 2,093	$ 4,235	$ 340,855

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated (in thousands):

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Total
Commercial, financial and agricultural	$ 27	$ 5,948	$ 5,975	$ 168
Construction and development	131	-	131	-
Residential first mortgages	387	-	387	467
HELOCs and equity	78	-	78	62
Commercial real estate	1,093	-	1,093	374
Consumer and other	46	-	46	145
Total	$ 1,762	$ 5,948	$ 7,710	$ 1,216

The Company recognized $48,000 of interest income on nonaccrual loans during the year ended December 31, 2023. The Company has made certain loans where the interest is prepaid by the guarantor. When the loan is placed on non-accrual status, the prepaid interest in recognized and the guarantor pays the principal. The Company has determined that nonaccrual loans that are exhibiting the ability for repayment or are less than the threshold for individual evaluation per company policy are excluded from individual evaluation unless it is determined that these loans exhibit different risk characteristics than the collective loan pool.

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

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023 (in thousands):

Commercial, financial and agricultural	$ 219
Construction and development	2
Residential first mortgages	18
HELOCs and equity	1
Commercial real estate	33
Consumer and other	-
Total loans	$ 273

Collateral dependent loans:

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate. Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage. Home equity lines of credit are generally secured by second mortgages on residential real estate property. Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans (in thousands):

	December 31, 2023
Commercial, financial and agricultural	$ 6,080
Commercial real estate	6,368
Residential first mortgages	456
Construction and development	200
Consumer and other	34
Total loans	$ 13,138

During the year ended December 31, 2023, the Company identified a problem loan and evaluated the loan individually. This loan required a reserve of approximately $3 million as of December 31, 2023.

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

Collateral dependent loans:

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023, under the CECL methodology (in thousands):

	Commercial, Financial and Agricultural	Construction and Development	Residential First Mortgages	Heloc's and Equity	Commercial Real Estate	Consumer and Other	Total
Balance, December 31, 2022	$ 1,198	$ 209	$ 388	$ 77	$ 898	$ 216	$ 2,986
Adoption of ASC 326	(255)	655	498	(49)	427	(79)	1,197
Charge-offs	(52)	-	-	-	-	(275)	(327)
Recoveries	-	-	-	1	5	36	42
Provision for credit losses	2,900	166	(163)	(1)	432	336	3,670
Balance, December 31, 2023	$ 3,791	$ 1,030	$ 723	$ 28	$ 1,762	$ 234	$ 7,568

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods (in thousands):

	For the Year Ended December 31, 2022					
	Commercial, Financial and Agricultural	Commercial Real Estate	Residential First Mortgages	Construction and Development	Consumer and Other	Total
Beginning balance	$ 755	$ 1,191	$ 501	$ 171	$ 393	$ 3,011
Provision for loan losses	512	(296)	(109)	38	(45)	100
Loans charged off	(69)	-	-	-	(200)	(269)
Recoveries	-	3	73	-	68	144
Ending balance	$ 1,198	$ 898	$ 465	$ 209	$ 216	$ 2,986

	For the Year Ended December 31, 2022					
	Commercial, Financial and Agricultural	Commercial Real Estate	Residential First Mortgages	Construction and Development	Consumer and Other	Total
Allowance for loan losses						
Specific reserves						
Impaired loans	$ 88	$ 52	$ -	$ -	$ -	$ 140
Total specific reserves	88	52	-	-	-	140
General reserves	1,110	846	465	209	216	2,846
Total	$ 1,198	$ 898	$ 465	$ 209	$ 216	$ 2,986
Loans outstanding						
Loans individually evaluated for impairment	$ 1,572	$ 1,246	$ 131	$ 155	$ -	$ 3,104
Loans collectively evaluated for impairment	85,031	150,401	68,566	27,171	6,582	337,751
Total	$ 86,603	$ 151,647	$ 68,697	$ 27,326	$ 6,582	$ 340,855

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

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

Collateral dependent loans:

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, 2022, substantially all of the total impaired loans were evaluated based on the present value of expected future cash flows. General reserves are determined using historical loss trends which is applied to risk rated loans grouped by product code. For all loans, the general reserves are calculated by applying the appropriate historical loss factor to the loan pool. Impaired loans greater than a minimum threshold established by management are excluded from this analysis. The sum of all such amounts determines our total allowance for loan losses.

The following is an analysis of the Bank's impaired loans that were evaluated for specific loss allowance at December 31, 2022 (in thousands):

	December 31, 2022						
	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	-	-	-	192	131	139	11
Commercial, financial and agricultural							
Secured	1,575	1,572	88	-	-	1,593	60
Unsecured	-	-	-	-	-	-	-
Commercial real estate							
Owner occupied	540	517	52	574	459	1,018	67
Non-owner occupied	-	-	-	313	270	278	20
Multifamily	-	-	-	-	-	-	-
Construction and development							
Construction	-	-	-	155	155	145	11
Improved land	-	-	-	-	-	-	-
Unimproved land	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 2,115	$ 2,089	$ 140	$ 1,234	$ 1,015	$ 3,173	$ 169

Modifications made to borrowers experiencing financial difficulty:

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

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

Modifications made to borrowers experiencing financial difficulty, continued:

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, and interest rate reduction. No modifications involved principal forgiveness.

The following tables show the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty (in thousands):

	Interest Rate Reduction		
	Amortized Cost Basis	**% of Total Loan Type**	**Financial Effect**
Commercial, financial and agricultural	$ -	-	
Construction and development	-	-	
Residential first mortgages	117	0.2%	Reduced weighted-average contractual interest rate from 7.94% to 5.42%.
HELOC's and equity	-	-	
Commercial real estate	-	-	
Consumer and other	-	-	
Total	$ 117		

	Term Extension		
	Amortized Cost Basis	**% of Total Loan Type**	**Financial Effect**
Commercial, financial and agricultural	$ 132	0.1%	Added a weighted-average 10 months to life of loans, which reduced monthly payment amounts for borrowers.
Construction and development	-	-	
Residential first mortgages	-	-	
HELOC's and equity	-	-	
Commercial real estate	786	0.5%	Added a weighted-average 28 months to life of loans, which reduced monthly payment amounts for borrowers.
Consumer and other	-	-	
Total	$ 918		

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

Modifications made to borrowers experiencing financial difficulty, continued:

	Combination - Term Extension and Interest Rate Reduction		
	Amortized Cost Basis	**% of Total Loan Type**	**Financial Effect**
Commercial, financial and agricultural	$ -	-	
Construction and development	-	-	
Residential first mortgages	102	0.2%	Added weighted-average 14 months to life of loans. Reduced weighted-average contractual interest rate from 8.00% to 5.75%.
HELOC's and equity	-	-	
Commercial real estate	384	0.2%	Added a weighted-average 21 months to life of loans. Reduced weighted-average contractual interest rate from 8.20% to 5.17%.
Consumer and other	-	-	
Total	$ 486		

The Company did not commit to lend additional amounts to the borrowers included in the previous tables.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The following table provides the amortized cost basis of loans that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty (in thousands):

	Amortized Costs Basis of Modified Loans That Subsequently Defaulted		
	Interest Rate Reduction	**Term Extension**	**Combination-Interest Rate Reduction and Term Extension**
Commercial, financial and agricultural	$ -	$ -	$ -
Construction and development	-	-	-
Residential first mortgages	1	-	-
HELOC's and equity	-	-	-
Commercial real estate	-	247	261
Consumer and other	-	-	-
Total	$ 1	$ 247	$ 261

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

Modifications made to borrowers experiencing financial difficulty, continued:

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months:

	Payment Status (Amortized Cost Basis)		
	Current	30-89 Days Past Due	90+ Days Past Due
Commercial, financial and agricultural	$ 132	$ -	$ -
Construction and development	-	-	-
Residential first mortgages	217	-	1
HELOC's and equity	-	-	-
Commercial real estate	124	539	508
Consumer and other	-	-	-
Total	$ 473	$ 539	$ 509

Unfunded commitments:

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in Note 3. The allowance for credit losses for unfunded loan commitments of $407,000 and $60,000 at December 31, 2023 and December 31, 2022, respectively, is separately classified on the Consolidated Balance Sheet within Other Liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023 (in thousands):

	Total Allowance for Credit Losses – Unfunded Commitments
Balance, December 31, 2022	$ 60
Adoption of ASC 326	336
Provision for unfunded commitments	11
Balance, December 31, 2023	$ 407

Note 4. Premises and Equipment

Premises and equipment consisted of the following at December 31, 2023 and 2022:

	2023	2022
Land	$ 2,212,250	$ 2,212,250
Buildings and improvements	9,207,238	8,440,360
Furniture and equipment	10,582,211	11,284,642
Total	22,001,699	21,937,252
Less accumulated depreciation	(15,958,246)	(15,590,029)
Premises and equipment, net	$ 6,043,453	$ 6,347,223

Depreciation expense for the years ended December 31, 2023 and 2022 was approximately $620,000 and $607,000, respectively. There were no sales of premises and equipment for the year ended December 31, 2023 and 2022.

Note 5. Deposits

The following is a summary of interest-bearing deposits at December 31, 2023 and 2022:

	2023	2022
NOW and money market accounts	$ 174,194,779	$ 232,361,752
Savings accounts	62,537,601	67,245,787
Time deposits of $250,000 or more	10,494,233	18,365,004
Other time deposits	65,728,620	57,979,766
	$ 312,955,233	$375,952,309

At December 31, 2023, the Bank had one deposit relationship which comprised approximately 5.9% of total deposits. There was one deposit relationship at December 31, 2022, that represented 9.3% of total deposits.

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 $37,707,000 and $28,245,000 in CDARS deposits at December 31, 2023 and 2022, respectively.

At December 31, 2023, the scheduled maturities of time deposits were as follows:

2024	$ 65,583,888
2025	4,437,044
2026	3,277,667
2027	1,551,314
2028 and after	1,372,940
	$ 76,222,853

Note 6. Borrowings

Federal Home Loan Bank Advances:

In August 2006, the Company received an Affordable Housing Program Award (AHP) in the amount of $400,000. The AHP is a principal reducing credit with an interest rate of 0% and had a remaining balance of approximately $65,000 and $88,000 at December 31, 2023 and 2022, respectively. These advances are collateralized by FHLB stock, a blanket lien on the residential first mortgages, certain commercial real estate loans and investment securities. As of December 31, 2023 and 2022, total loans pledged to FHLB as collateral were approximately $79.9 million and $88.4 million, respectively.

As of December 31, 2023 and 2022, maturities of the Company's Federal Home Loan Bank advances are as follows:

Maturity	Rate	2023	2022
Daily	4.57%	$ -	$ 3,000,761
August 2026 [1]	0.00%	64,921	87,658
		$ 64,921	$ 3,088,419

[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, 2023, the Company has a $174.3 million line of credit facility at the FHLB of which $36.1 million was used for advances of $65,000 and a letter of credit to secure public deposits in the amount of $36.0 million. The Company also had $92.2 million of borrowing capacity at the Federal Reserve Bank discount window. This borrowing capacity is collateralized by commercial real estate and consumer loans. As of December 31, 2023 and 2022, total pledged loans to the Federal Reserve Bank were approximately $117.9 million and $93.0 million, respectively. Additionally, the Company has an unsecured $7.0 million federal funds line of credit.

Note 7. Income Taxes

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

	2023	2022
Current tax expense	$ 5,125,433	$ 2,980,170
Deferred tax benefit	(1,451,314)	(3)
Total income tax expense	$ 3,674,119	$ 2,980,167

Note 7. Income Taxes, Continued

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, 2023 and 2022 to income before income taxes follows:

	2023	2022
Tax expense at statutory rate	$ 3,353,501	$ 2,607,646
State income taxes, net of federal benefit	486,673	402,996
Tax exempt interest income, net of disallowed interest expense	(37,379)	(49,420)
Cash surrender value of life insurance income	(62,883)	(59,951)
Impact of tax rate change on deferred taxes	760	2
Other	(66,553)	78,894
Total	$ 3,674,119	$ 2,980,167

The components of the net deferred tax asset is as follows as of December 31, 2023 and 2022:

	2023	2022
Deferred tax assets		
Net unrealized loss on securities available for sale	$ 3,361,816	$ 3,662,842
Allowance for credit losses	1,935,830	764,810
Unfunded commitments	103,526	-
Nonaccrual loan interest	31,687	13,168
Deferred compensation	1,511,507	1,290,881
Deferred revenue	9,328	42,675
Leases	68,894	82,142
Other	7,167	-
Gross deferred tax assets	7,029,755	5,856,518
Deferred tax liabilities		
Deferred loan costs	92,601	106,666
Depreciation	74,315	158,938
Other	-	271,069
Gross deferred tax liabilities	166,916	536,673
Net deferred tax asset	$ 6,862,839	$ 5,319,845

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 2020 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, 2023 and 2022, the Company recognized approximately $206,000 and $198,000 in expenses related to this plan, respectively. The Company 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 $488,000 and $488,000 2023 and 2022, respectively, in noninterest expenses. The Company recognized approximately $299,000 and $285,000 in 2023 and 2022, respectively, in noninterest income related to the insurance contracts. For the Bonus Plan, the Company incurred expenses of approximately $56,000 and $61,000 in 2023 and in 2022, respectively, in salaries and employee benefits expense.

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, 2023 and 2022, the cash surrender value of these insurance contracts was approximately $11.9 million and $11.6 million, respectively.

Note 9. Commitments and Contingencies

Credit commitments and commercial letters:

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

Note 9. Commitments and Contingencies, Continued

Credit commitments and commercial letters, continued:

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

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

	2023	2022
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 50,735,000	$ 55,167,000
Commercial letters of credit	$ 24,000	$ 1,524,000

Leases:

As of December 31, 2023, the Company had an operating right-of-use (ROU) asset of $1.2 million and an operating lease liability of $1.5 million. The lease for the Company's headquarters commenced on November 1, 2015 with a term of 12 years and 2 months. The lease requires monthly payments, which started at $26,291 for the first year and increases 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, 2023, future minimum lease payments under all noncancelable lease agreements inclusive of sales tax and maintenance costs for the next five years are as follows:

2024	$ 395,337
2025	405,190
2026	415,346
2027	389,484
2028	-
Total undisclosed lease payments	1,605,357
Less: effect of discounting	130,829
Present value of estimated lease payments	$ 1,474,528

Note 9. Commitments and Contingencies, Continued

Leases, continued:

Rent expense in 2023 and 2022 was approximately $337,000 and $340,000, 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. Net Income Per Common and Common Equivalent Share

Basic and diluted net income per common and potential common share has been calculated based on the weighted average number of shares outstanding. Nonvested restricted shares with only a vesting period as service requirement are considered to be dilutive for purposes of calculating diluted earnings per share below. The following schedule reconciles the numerators and denominator of the basic and diluted net income per common and potential common share for the years ended December 31, 2023 and 2022:

	Year Ended December 31, 2023		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	$ 12,024,931	1,917,102	$ 6.27
Effect of dilutive securities			
nonvested restricted common shares	-	53,938	0.17
Diluted earnings per share	$ 12,024,931	1,971,040	$ 6.10

	Year Ended December 31, 2022		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share available to common stockholders	$ 9,205,666	1,986,031	$ 4.64
Effect of dilutive securities			
nonvested restricted common shares	-	53,086	0.13
Diluted earnings per share	$ 9,205,666	2,039,117	$ 4.51

Note 11. Fair Value Measurements

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

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

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

Fair value hierarchy:

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

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

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

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

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

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

Note 11. Fair Value Measurements, Continued

Fair value hierarchy, continued:

Individually evaluated loans: The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered individually evaluated and an allowance for credit loss is established. The fair value of individually evaluated 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 individually evaluated 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. Individually evaluated 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 Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Other real estate owned: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company 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, 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
Recurring basis				
Securities available for sale				
Municipal securities	$ 12,801	$ -	$ 12,801	$ -
U.S. Treasury securities	51,777	-	51,777	-
Agency securities	19,847	-	19,847	-
Mortgage-backed securities	110,546	-	110,546	-
Corporate securities	4,236	-	4,236	-
Total	$ 199,207	$ -	$ 199,207	$ -

Note 11. Fair Value Measurements, Continued

Fair value hierarchy, continued:

	December 31, 2023 (Continued)			
	Total	Level 1	Level 2	Level 3
Nonrecurring basis				
Individually evaluated loans				
Commercial real estate	$ 5,566	$ -	$ -	$ 5,566
Commercial, financial and agricultural	6,166	-	-	6,166
Residential first mortgages	1,259	-	-	1,259
HELOCs and equity	128	-	-	128
Construction and development	200	-	-	200
Consumer and othere	107	-	-	107
Total	$ 13,426	$ -	$ -	$ 13,426

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Recurring basis				
Securities available for sale				
Municipal securities	$ 12,695	$ -	$ 12,695	$ -
U.S. Treasury securities	62,990	-	62,990	-
Agency securities	6,481	-	6,481	-
Mortgage-backed securities	91,262	-	91,262	-
Corporate securities	4,306	-	4,306	-
Total	$ 177,734	$ -	$ 177,734	$ -
Nonrecurring basis				
Impaired loans				
Commercial real estate	$ 1,194	$ -	$ -	$ 1,194
Commercial, financial and agricultural	1,484	-	-	1,484
Single family residential	131	-	-	131
Construction and development	155	-	-	155
Consumer and other	-	-	-	-
Total	$ 2,964	$ -	$ -	$ 2,964

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:

Note 11. Fair Value Measurements, Continued

<u>*Fair value hierarchy, continued:*</u>

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

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

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

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

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

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 Company for debt with similar remaining maturities and terms and are classified as Level 2.

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

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

Note 11. Fair Value Measurements, Continued

Fair value hierarchy, continued:

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023				
	Carrying	Fair Value Measurements			
	Amount	Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 1,605	$ 1,605	$ 1,605	$ -	$ -
Federal funds sold	33,428	33,428	33,428	-	-
Interest-bearing deposits with banks	107,675	107,675	107,675	-	-
Certificates of deposit	250	244	244	-	-
Investment securities	199,207	199,207	-	199,207	-
Other investments	995	995	995	-	-
Loans, net	371,149	363,902	-	-	363,902
Financial liabilities					
Deposits	$ 554,796	$ 554,887	$ 478,573	$ 76,314	$ -
Advances from Federal Home Loan Bank	65	65	-	65	-

	Notional Amount	Estimated Fair Value
Off-balance-sheet financial instruments		
Commitments to extend credit	$ 50,735	$ 50,735
Commercial letters of credit	24	24

Note 11. Fair Value Measurements, Continued

Fair value hierarchy, continued:

	December 31, 2022				
	Carrying Amount	Fair Value Measurements Total	Level 1	Level 2	Level 3
Financial assets					
Cash and due from banks	$ 1,760	$ 1,760	$ 1,760	$ -	$ -
Federal funds sold	31,775	31,775	31,775	-	-
Interest-bearing deposits with banks	226,569	226,569	226,569	-	-
Certificates of deposit	350	350	350	-	-
Investment securities	177,734	177,734	-	177,734	-
Other investments	888	888	888	-	-
Loans, net	337,869	327,235	-	-	327,235
Financial liabilities					
Deposits	$ 620,208	$ 619,925	$ 544,694	$ 75,231	$ -
Advances from Federal Home Loan Bank	3,088	3,082	-	3,082	-

	Notional Amount	Estimated Fair Value
Off-balance-sheet financial instruments		
Commitments to extend credit	$ 55,167	$ 55,167
Commercial letters of credit	1,524	1,524

Note 12. Stockholders' Equity

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023, the Company meets all capital adequacy requirements to which it is subject.

Note 12. Stockholders' Equity, Continued

As of December 31, 2023, 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 following 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, 2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Consolidated	$ 186,580	43.3%	$ 34,462	8.0%	$ N/A	N/A
Bank	91,107	21.6%	33,741	8.0%	42,176	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	58,905	13.7%	19,385	4.5%	N/A	N/A
Bank	86,132	20.4%	18,979	4.5%	27,414	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	181,605	42.2%	25,846	6.0%	N/A	N/A
Bank	86,132	20.4%	25,305	6.0%	33,741	8.0%
Tier I capital (to average assets)						
Consolidated	181,605	24.8%	29,272	4.0%	N/A	N/A
Bank	86,132	11.9%	28,994	4.0%	36,243	5.0%
December 31, 2022						
Total capital (to risk-weighted assets)						
Consolidated	$ 187,133	48.4%	$ 30,936	8.0%	$ N/A	N/A
Bank	77,794	20.1%	30,929	8.0%	38,661	10.0%
Tier I common equity (to risk weighted assets)						
Consolidated	61,447	15.9%	17,402	4.5%	N/A	N/A
Bank	74,808	19.3%	17,398	4.5%	25,130	6.5%
Tier I capital (to risk weighted assets)						
Consolidated	184,147	47.6%	23,202	6.0%	N/A	N/A
Bank	74,808	19.3%	23,197	6.0%	30,929	8.0%
Tier I capital (to average assets)						
Consolidated	184,147	22.7%	32,502	4.0%	N/A	N/A
Bank	74,808	9.2%	32,490	4.0%	40,612	5.0%

Note 12. Stockholders' Equity, Continued

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

The Company paid dividends of $1.5 million and $994,000 on its common stock in 2023 and 2022, respectively. The annual dividend payout rate was $0.75 and $0.50 per common share in 2023 and 2022, respectively.

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

Note 13. Equity Incentive Plan

The Company awards restricted stock grants to directors and certain officers as a long-term incentive. Nonvested restricted stock for the years ended December 31, 2023 and 2022 is summarized in the following table:

	2023		2022	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1	59,200	$ 11.30	56,000	$ 11.80
Granted	25,700	36.80	24,200	10.46
Vested	(21,700)	10.09	(21,000)	11.67
Forfeited	-	-	-	-
Nonvested at December 31	63,200	$ 22.08	59,200	$ 11.30

The vesting schedule for these shares as of December 31, 2023 is as follows:

	Shares
2024	22,700
2025	20,000
2026	20,500
Total	63,200

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.

Note 14. Related Party Transactions, Continued

The following table summarizes related party loans (in thousands):

	2023	2022
Balance at the beginning of the year	$ 13,156	$ 15,504
New loans or advances	464	184
Repayments	(1,559)	(2,532)
Balance at the end of the year	$ 12,061	$ 13,156

As of December 31, 2023 and 2022, the Company had related party loans totaling approximately $12.1 million and $13.2 million, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $18.4 million and $5.5 million at December 31, 2023 and 2022, respectively.

Note 15. Supplementary Income Statement Information

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

	2023	2022
Stationery and supplies	$ 100,292	$ 84,170
Telephone	403,636	368,386
FDIC insurance premium	318,067	243,227
Security and protection expense	354,994	248,134
Advertising and marketing	1,004,236	632,081
ATM charges	216,000	225,749
Business development	263,701	165,757
Subscription dues	171,432	169,213
Other miscellaneous expenses	2,421,835	1,954,015
Total	$ 5,254,193	$ 4,090,732

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

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

Condensed Balance Sheets

	For the Years Ended December 31, 2023	2022
Assets		
Cash	$ 92,220,309	$ 109,021,611
Investment in banking subsidiary	76,694,000	62,827,300
Investment in non-banking subsidiary	7,497,148	-
Other assets	529,057	341,990
Total assets	$ 176,940,514	$ 172,190,901
Liabilities and Stockholders' Equity		
Other liabilities	$ 13,475	$ 23,897
Stockholders' equity	176,927,039	172,167,004
Total liabilities and stockholders' equity	$ 176,940,514	$ 172,190,901

Condensed Statements of Income

	For the Years Ended December 31, 2023	2022
Income	$ 2,969,916	$ 1,308,000
Expenses	825,867	581,234
Income before tax benefit and equity in undistributed earnings of subsidiaries	2,144,049	726,766
Income tax benefit	188,589	139,496
Income before equity in undistributed earnings of the subsidiaries	2,332,638	866,262
Equity in undistributed earnings of the banking subsidiary	12,465,145	8,570,932
Equity in undistributed earnings of the non-banking subsidiary	(2,502,852)	-
Net income	$ 12,294,931	$ 9,437,194

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

Condensed Statements of Cash Flows

	For the Years Ended December 31,	
	2023	**2022**
Operating activities		
Net income	$ 12,294,931	$ 9,437,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of banking subsidiaries	(9,962,293)	(8,570,932)
Restricted stock-based compensation plan	416,844	264,235
Change in other assets	(187,066)	(139,497)
Change in other liabilities	(10,422)	(50,378)
Net cash provided by operating activities	2,551,994	940,622
Investing activities		
Investment in subsidiaries	(10,000,000)	(10,000,000)
Financing activities		
Common stock dividend paid	(1,492,727)	(993,504)
Preferred stock dividend paid	(270,000)	(231,528)
Issuance of preferred stock	-	100,700,000
Purchase of treasury stock	(7,590,569)	(198,807)
Net cash (used in) provided by financing activities	(9,353,296)	99,276,161
Net (decrease) increase in cash	(16,801,303)	90,216,783
Cash, beginning of year	109,021,611	18,804,828
Cash, end of year	$ 92,220,309	$ 109,021,611

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.

The Company has disclosed its investment portfolio position in Note 2. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

Management has reviewed events occurring through March 29, 2024, the date the financial statements were available to be issued, and no items were noted requiring accrual or disclosure.

Stockholders Information

Corporate Headquarters	Mailing Address	Transfer Agency
230 Peachtree Street, NW Suite 2700 Atlanta, Georgia 30303 www.ctbconnect.com 678.406.4000	Citizens Bancshares Corporation Post Office Box 56943 Atlanta, Georgia 30343 Notice of Annual Meeting May 22, 2024, 11:00 a.m. ET Citizens Trust Bank Corporate Headquarters 230 Peachtree Street, NW Suite 2700 Atlanta, Georgia 30303	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

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. HOWIE HODGES, II
Chief Executive Officer,
CH Hodges, Inc.

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

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

JAMES E. WILLIAMS
Chairman
Immersive Solutions

Principal Officers of Citizens Trust Bank

CYNTHIA N. DAY
President and Chief Executive Officer

SAMUEL J. COX
Executive Vice President/ Chief Financial Officer

FREDERICK L. DANIELS, JR.
Executive Vice President/Chief Credit Officer

FARRAND O. LOGAN
Executive Vice President/ Chief Lending Officer/
Director of Sales and Business Development

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

WANDA F. NESBIT
Senior Vice President/Human Resources Director

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5771 Rockbridge Road
Stone Mountain, GA 30087

Westside
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Atlanta, GA 30314

ALABAMA

Birmingham Headquarters
1700 3rd Avenue North
Birmingham, AL 35203

Eutaw
213 Main Street
Eutaw, AL 35462

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