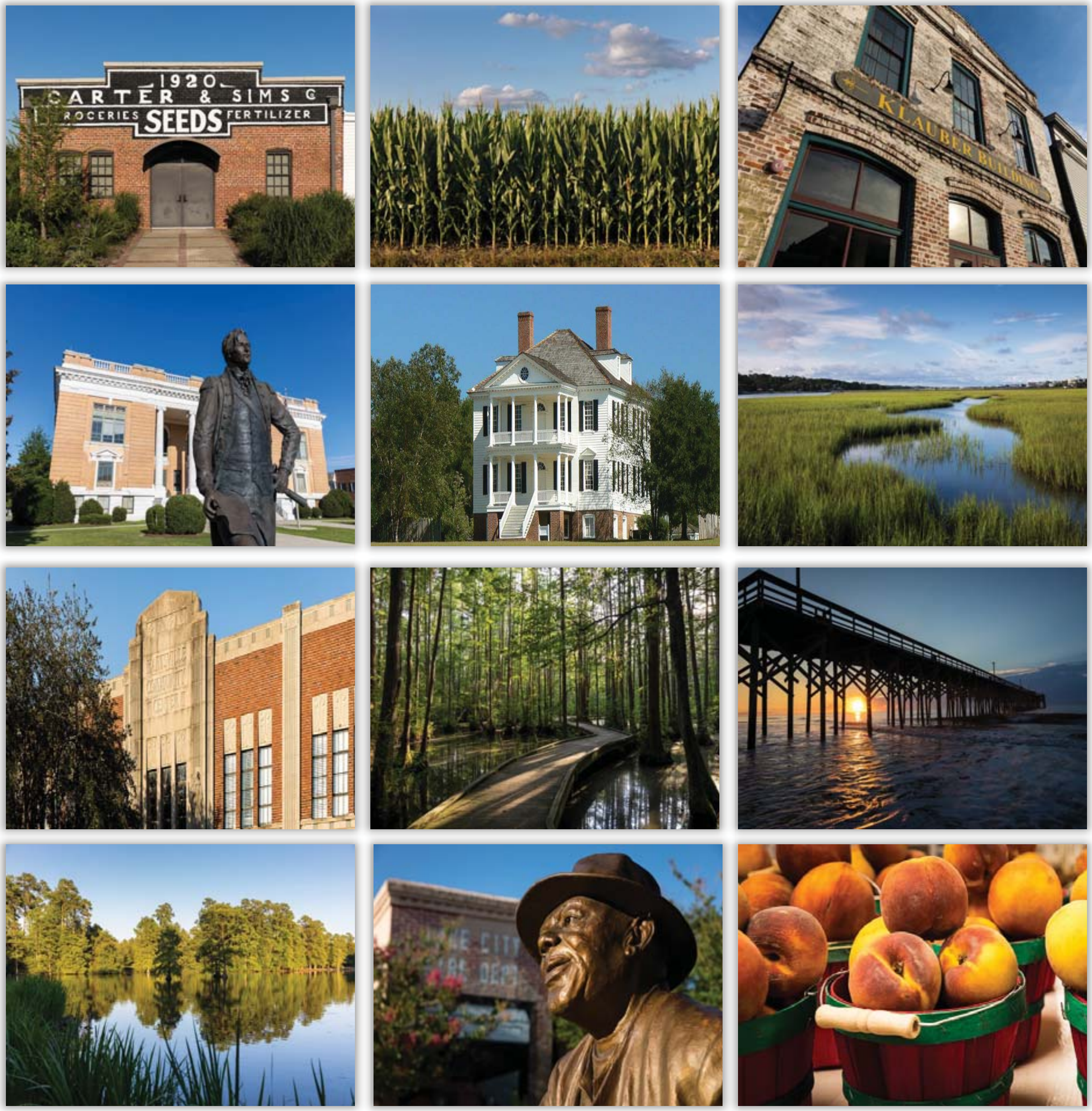
Citizens Bancshares Corporation
2019 Annual Report

Places we call home...



The Citizens Bank

Solid Traditions. Smart Solutions.

TO OUR SHAREHOLDERS AND FRIENDS:

We are pleased to present this annual report of the financial condition of Citizens Bancshares Corporation, and its wholly owned subsidiary, The Citizens Bank (collectively, the "Company").

We are happy to report that 2019 was a great year for The Citizens Bank (TCB). It was a year of transition and opportunity. We expanded our footprint into three new markets as a result of the merger with Heritage Community Bank that was finalized in December of 2018. The expansion gave us an opportunity to serve Hartsville, McBee, and Camden S.C.

The integration of Heritage customers and employees went very smoothly and generated an immediate improvement in earnings. The conversion of operating systems and technology offerings to our customers performed without disruption and solidified relationships with former Heritage customers.

In 2019, we obtained a ticker symbol for Citizens Bancshares to provide electronic trading of our stock under the stock symbol CITZ. Over time this will allow more liquidity and additional demand for TCB stock. Our shareholders can retain paper certificates or deposit the certificates in their brokerage account if they wish to convert them to electronic shares. Current shareholders can place a bid to buy or sell TCB stock online through a Brokerage account. This change will also allow prospective shareholders to place a bid price for TCB stock.

We are pleased to report that 2019 was the most profitable year in the Company’s 77-year history. Net income was $5.6 Million, compared to $4.2 Million in 2018. We also increased the dividend to $0.32 per share. Basic earnings per share for 2019 were $2.86 compared to $2.41 in 2018. The increase in net income was primarily a result of increased interest income due to loan portfolio growth and increased non-interest revenue generation from other bank products and services.

Total assets of the Company as of 12/31/2019 were $580 Million compared to $537.3 Million at year-end 2018. Total deposits were $489.8 Million compared to $468.7 Million at year-end 2018. Loans net of unearned income and the allowance for loan losses totaled $380.3 Million as of 12/31/2019, compared to $368.6 Million at year-end 2018. Shareholders' equity increased to $61.9 Million as of 12/31/2019, compared to $55.2 Million at year-end 2018. Per share book value was $31.45 as of 12/31/2019 compared to $28 at year-end 2018.

The loan portfolio performed exceptionally well in 2019, indicative of our strong credit culture. The loan loss reserve totaled $3.6 Million or 0.93% of total loans and is considered more than adequate in our current credit cycle. Nonperforming loans to gross loans as of 12/31/19 were 0.46%, compared to 0.57% at the end of 2018. Net loan charge-offs to average total loans were 0.04%, compared to 0.08% at year end 2018.

Projected earnings for first quarter 2020 reflect an increase over the first quarter of 2019. However, the Coronavirus is looming and has already inflicted severe economic shock and financial disruption. The current interest rate environment is historically low creating net margin and yield compression across all asset classes. Conditions are changing daily with explosive volatility and extraordinary uncertainty.

We have contingency planning in place to work through the disruption and unprecedented challenges brought on by Coronavirus. It will clearly have negative repercussions on earnings compared to the record profit we enjoyed in 2019. While we cannot expect the same level of earnings in 2020 as 2019, we do anticipate another good year related to earnings and increasing overall shareholder value. Our employees performed extraordinarily well in 2019, and I am confident of their ability to overcome the adversity and unique challenges that will be required in 2020. The Citizens Bank will continue to be a high performing community bank.

We are committed to maximizing shareholder value by growing our company in a safe and sound manner. We stay focused on soundness, profitability, and growth, and in that order. We will pursue growth both organically and through acquisitions. However, we will not sacrifice long term soundness or profitability for the sake of growth.

On behalf of our employees, customers, and the community, thank you for being a shareholder. We never forget, it is because of our shareholders, Board of Directors, employees, and most of all, our customers that The Citizens Bank exists. As always, we welcome your comments and suggestions. Please do not hesitate to call me if I can be of service in any way.

Sincerely,

TBouchette

Thomas Bouchette
President
Chief Operating Officer

Citizens Bancshares Corporation

Report on Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Citizens Bancshares Corporation

Contents

elliott davis

Independent Auditor's Report

The Board of Directors
Citizens Bancshares Corporation
Olanta, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Citizens Bancshares Corporation and its subsidiary which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Bancshares Corporation and its subsidiary as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina
April 1, 2020

Citizens Bancshares Corporation
Consolidated Balance Sheets
As of December 31, 2019 and 2018

(Dollars in thousands)	2019	2018
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 27,948	$ 24,581
Interest-bearing deposits	54,884	29,612
Total cash and cash equivalents	82,832	54,193
Other interest-bearing balances	4,749	4,242
Investment securities:		
Securities available-for-sale	71,776	69,911
Nonmarketable equity securities	1,304	1,179
Total investment securities	73,080	71,090
Loans receivable	383,856	371,954
Less allowance for loan losses	(3,577)	(3,317)
Loans, net	380,279	368,637
Premises, furniture and equipment, net	16,162	16,572
Bank owned life insurance	7,517	7,327
Cash surrender value of life insurance	1,570	1,631
Goodwill	6,551	6,736
Core deposit intangible	1,844	2,049
Accrued interest receivable	1,969	2,016
Other real estate owned	617	523
Deferred tax asset	805	1,363
Other assets	1,994	879
Total assets	$ 579,969	$ 537,258
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 137,920	$ 132,114
Interest-bearing transaction accounts	99,736	97,017
Savings	134,087	126,714
Certificates of deposit $250,000 and over	18,811	15,296
Other time deposits	99,210	97,603
Total deposits	489,764	468,744
Advances from the Federal Home Loan Bank	18,000	9,000
Junior subordinated debenture	2,948	2,899
Securities sold under agreement to repurchase	4,692	-
Accrued interest payable	372	322
Other liabilities	2,275	1,128
Total liabilities	518,051	482,093
Commitments and contingencies (Notes 11, 20, and 22)		
Shareholders' equity:		
Common stock, $1.00 par value; 2,500,000 shares authorized; 2,387,821 and 2,387,675 shares issued and outstanding at December 31, 2019 and 2018, respectively	2,388	2,388
Capital surplus	7,993	7,993
Retained earnings	59,588	54,578
Treasury stock, at cost (418,972 and 417,809 shares at December 31, 2019 and 2018, respectively)	(8,098)	(8,063)
Accumulated other comprehensive income (loss)	47	(1,731)
Total shareholders' equity	61,918	55,165
Total liabilities and shareholders' equity	$ 579,969	$ 537,258

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

(Dollars in thousands, except per share amounts)	2019	2018
Interest income:		
Loans, including fees	$ 20,669	$ 15,422
Investment securities:		
Taxable	1,082	1,036
Tax-exempt	395	409
Nonmarketable equity securities	65	54
Federal funds sold	226	89
Deposits with other banks	1,399	1,007
Total interest income	23,836	18,017
Interest expense:		
Deposits	2,588	1,106
Advances from the Federal Home Loan Bank	333	267
Other interest expense	30	-
Total interest expense	2,951	1,373
Net interest income	20,885	16,644
Provision for loan losses	405	100
Net interest income after provision for loan losses	20,480	16,544
Noninterest income:		
Service charges on deposit accounts	2,620	2,161
Residential mortgage origination fees	444	252
Income from cash surrender value of life insurance	189	111
Brokerage fees	408	440
Credit card and interchange fees	1,690	1,315
Other operating income	770	615
Total noninterest income	6,121	4,894
Noninterest expense:		
Salaries and employee benefits	10,474	8,663
Net occupancy	1,803	1,420
Furniture and equipment	1,424	998
FDIC assessments	103	139
Communications	240	148
Net cost of other real estate owned	339	72
Other operating	4,875	4,385
Total noninterest expense	19,258	15,825
Income before income taxes	7,343	5,613
Income tax expense	1,704	1,364
Net income	$ 5,639	$ 4,249
Earnings per share		
Basic	$ 2.86	$ 2.41
Diluted	$ 2.76	$ 2.31

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Dollars in thousands)	**2019**	**2018**
Net income	$ 5,639	$ 4,249
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the period	2,402	(621)
Tax effect	(624)	188
Other comprehensive income (loss), net of tax	1,778	(433)
Comprehensive income	$ 7,417	$ 3,816

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2019 and 2018

(Dollars in thousands, except shares)	Common stock Shares	Common stock Amount	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	2,162,448	$ 2,163	$ 1,461	$ 50,852	$ (8,063)	$ (1,298)	$ 45,115
Net income	-	-	-	4,249	-	-	4,249
Other comprehensive loss, net of taxes	-	-	-	-	-	(433)	(433)
Issuance of common stock	225,227	225	6,532	-	-	-	6,757
Cash dividends paid ($0.30 per share)	-	-	-	(523)	-	-	(523)
Balance, December 31, 2018	2,387,675	2,388	7,993	54,578	(8,063)	(1,731)	55,165
Net income	-	-	-	5,639	-	-	5,639
Other comprehensive income, net of taxes	-	-	-	-	-	1,778	1,778
Purchase of treasury stock	-	-	-	-	(35)	-	(35)
Issuance of common stock	146	-	-	-	-	-	-
Cash dividends paid ($0.32 per share)	-	-	-	(629)	-	-	(629)
Balance, December 31, 2019	2,387,821	$ 2,388	$ 7,993	$ 59,588	$ (8,098)	$ 47	$ 61,918

See Notes to Consolidated Financial Statements

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

(Dollars in thousands)	**2019**	**2018**
Operating activities:		
Net income	$ 5,639	$ 4,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	405	100
Depreciation	856	676
Amortization of intangible assets	205	34
Goodwill measurement period adjustment	185	-
Writedown of other real estate owned	290	26
Discount accretion on purchased loans	525	-
Loss (gain) on sales and disposals of other real estate owned, net	31	(2)
Discount accretion and premium amortization, net	149	161
Decrease (increase) in interest receivable	47	(481)
Increase in interest payable	50	195
Increase in BOLI and cash surrender value of life insurance	(129)	(213)
Decrease in other assets	1,115	232
(Decrease) increase in other liabilities	1,146	(53)
Net cash provided by operating activities	8,268	4,924
Cash flows from investing activities:		
Purchases of securities available-for-sale	(21,673)	(1,506)
Net purchase of nonmarketable equity securities	(125)	(155)
Net increase in loans made to customers	(13,614)	(20,835)
Net (decrease) increase of other interest-bearing balances	(507)	1,741
Purchases of premises and equipment, net	(446)	(1,000)
Proceeds from disposal of premises and equipment	-	872
Proceeds from sales of other real estate owned	627	167
Proceeds from calls, maturities and paydowns of securities available-for-sale	22,061	1,220
Net cash received in business combination	-	8,709
Net cash used in investing activities	(13,677)	(10,787)
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	15,898	1,585
Net increase in certificates of deposit and other time deposits	5,122	4,024
Increase in securities sold under agreement to repurchase	4,692	-
Cash dividends paid	(629)	(523)
Purchase of treasury stock	(35)	-
(Repayment of) proceeds from Federal Home Loan Bank advances	9,000	(12,750)
Net cash provided by (used in) financing activities	34,048	(7,664)
Net (decrease) increase in cash and cash equivalents	28,639	(13,527)
Cash and cash equivalents, beginning of year	54,193	67,720
Cash and cash equivalents, end of year	$ 82,832	$ 54,193
Non cash investing and financing activities		
Unrealized (loss) gain on securities available-for-sale, net of tax	$ 1,778	$ (433)
Transfer of loans to other real estate owned	$ 1,042	$ 517
Initial recognition of right-of-use asset and lease liability	$ 687	$ -
Cash paid during the year for:		
Interest	$ 2,901	$ 1,179
Income taxes	$ 947	$ 1,479

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation:

The accompanying consolidated financial statements include the accounts of Citizens Bancshares Corporation, a bank holding company (the Company) and its wholly-owned subsidiary, The Citizens Bank (the Bank). The principal business activity of the Bank is to provide banking services to domestic markets in the Midlands, Pee Dee, and Coastal areas of South Carolina. The consolidated financial statements include the accounts of the parent and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

Management's Estimates:

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and income and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, including valuation allowances for impaired loans, impairment calculation of goodwill, fair value of investments and the carrying amount of real estate acquired in connection with foreclosures or in satisfaction of loans. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Significant Group Concentrations of Credit Risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the Midlands, Pee Dee, and Coastal regions of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions except for loans secured by commercial and residential real estate and commercial and industrial non-real estate loans.

Note 1. Summary of Significant Accounting Policies, Continued

Significant Group Concentrations of Credit Risk, continued:

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

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

Investment Securities:

All debt securities have been designated as available-for-sale by the Company and are carried at amortized cost and adjusted to their estimated fair value. The unrealized gain or loss is recorded in shareholders' equity net of the deferred tax effects. Management does not actively trade securities classified as available-for-sale but intends to hold these securities for an indefinite period of time and may sell them prior to maturity to achieve certain objectives. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis in the security. The adjusted cost basis of securities available-for-sale is determined by specific identification and is used in computing the realized gain or loss from a sales transaction.

Nonmarketable Equity Securities:

Nonmarketable equity securities include the Company's investment in the stock of the Federal Home Loan Bank. These securities are carried at cost because they have no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize any borrowings. At December 31, 2019 and 2018, the investment in Federal Home Loan Bank stock was $1,246,200 and $1,122,000, respectively. The Company also had an investment in Community Banker's Bank stock of $57,420 as of December 31, 2019 and 2018, respectively. Dividends received on nonmarketable equity securities are included as a separate component in interest income.

Note 1. Summary of Significant Accounting Policies, Continued

Loans Receivable:

Loans receivable are stated at their unpaid principal balance, net of any charge-offs. Interest income on loans is computed using the simple interest method and is recorded in the period earned. When serious doubt exists as to the collectability of a loan or a loan is contractually 90 days past due, the accrual of interest income is generally discontinued unless the estimated net realizable value of the collateral is sufficient to assure collection of the principal balance and accrued interest. When interest accruals are discontinued, interest accrued but uncollected is reversed. Loans are removed from nonaccrual status when they become current as to both principal and interest, when concern no longer exists as to the collectability of the principal and interest, and after a sufficient history of satisfactory payment performance has been established.

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether the borrower will be able to perform in accordance with the loan agreement. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

Acquired Loans:

Purchased credit-impaired loans ("PCI") are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB Accounting Standards Codification Topic 310-30, "*Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality,"* formerly American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 03-3, "*Accounting for Certain Loans or Debt Securities Acquired in a Transfer*," and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be PCI loans. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. The Company considers expected prepayments and estimates the amount and timing of expected principal, interest and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected to be collected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan's or pool's cash flows expected to be collected over the fair value for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable difference). Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial estimates are reclassified from nonaccretable difference to accretable difference and are accreted into interest income on a level-yield basis over the remaining life of the loan. Decreases in cash flows expected to be collected are recognized as impairment through the provision for loan losses.

Acquired non-impaired loans are recorded at their initial fair value and adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and additional provisioning that may be required.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses and in attempt to capture a full economic cycle. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, cash receipts are applied to principal. Once the reported principal balance has been reduced to the loan's estimated net realized value, future cash receipts are applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged-off. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income then to principal.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

Note 1. Summary of Significant Accounting Policies, Continued

Premises, Furniture and Equipment:

Premises, furniture and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed principally by accelerated cost recovery methods allowed for income tax reporting purposes if there are no material differences from generally accepted accounting principles. Rates of depreciation are generally based on the following estimated useful lives: buildings and land improvements - 10 to 40 years and furniture and equipment − 5 to 10 years. The cost of assets sold or otherwise disposed of and the related accumulated depreciation is eliminated from the accounts, and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred, and the costs of major renewals and improvements are capitalized.

Other Real Estate Owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at the lower of the loan amount or fair value less estimated costs to sell. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value less costs to sell. Costs to maintain such assets, subsequent write-downs, and gains and losses on disposal are charged to expense and are included in net cost of other real estate owned.

Goodwill and Other Intangible Assets:

Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Fair values are subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. Other intangible assets represent premiums paid for acquisitions of core deposits (core deposit intangibles). Core deposit intangibles are being amortized over a 10 year period based on amortization schedules prepared by an outside consultant. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of identifiable intangible assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. The Company’s evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. No impairment losses have been recorded as a result of the Company's analysis during the years ended December 31, 2019 and 2018.

Retirement and Deferred Compensation Plans:

The Bank has a profit sharing plan covering all full-time employees with at least twelve months of service and who have obtained the age of eighteen. Normal retirement age is the first of the month following attainment of age sixty-five or ten years of participation if later. Early retirement can be obtained at age fifty-five upon ten years of participation. Expenses charged to earnings for the years ended December 31, 2019 and 2018 totaled $450,000 and $375,000, respectively, and are included within salaries and employee benefits.

Note 1. Summary of Significant Accounting Policies, Continued

Income and Expense Recognition:

The accrual method of accounting is used for all significant categories of income and expense. Immaterial amounts of insurance commissions and other miscellaneous fees are reported when received.

Residential Mortgage Origination Fees:

The Company's residential mortgage lending activities for sale in the secondary market are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgage loans and selling mortgage loans to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or market value. Application and origination fees collected by the Company are recognized as income upon sale to the investor.

Income Taxes:

Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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.

Business Combinations:

The Company accounts for business combinations using the acquisition method of accounting. The accounts of an acquired entity are included as of the date of acquisition, and any excess of purchase price over the fair value of the net assets acquired is capitalized as goodwill. Under this method, all identifiable assets acquired, including purchased loans, and liabilities assumed are recorded at fair value. The Company typically issues common stock and/or pays cash for an acquisition, depending on the terms of the acquisition agreement. The value of shares of common stock issued is determined based on the market price of the stock as of the closing of the acquisition.

Advertising Expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $440,338 and $326,863, were included in other operating expenses for 2019 and 2018, respectively.

Note 1. Summary of Significant Accounting Policies, Continued

Comprehensive Income:

The Company reports comprehensive income in accordance with Accounting Standards Codification (ASC) 220, "Comprehensive Income." ASC 220 requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income. The only item included in accumulated other comprehensive (loss) income on the balance sheets is unrealized holding gains and losses on available-for-sale investment securities.

Per-Share Amounts:

Basic earnings per-share is computed by dividing net income by the weighted-average number of shares outstanding for the period. Diluted earnings per-share is similar to the computation of basic earnings per-share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of options outstanding under the Company's stock option plan are reflected in diluted earnings per-share by the application of the treasury stock method. See Note 13.

For purposes of computing earnings per-share, allocated shares and shares released for allocation by the employee retirement and stock ownership plan, The Citizens Bank KSOP Plan (the KSOP), a component of which includes Company stock, are considered outstanding.

Statement of Cash Flows:

For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest-bearing deposits, and federal funds sold. Generally, federal funds are sold for one day periods.

Off-Balance-Sheet Financial Instruments:

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently Issued Accounting Pronouncements:

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

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the consolidated financial statements. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

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

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

In November 2018, the FASB issued guidance to amend the Financial Instruments—Credit Losses topic of the Accounting Standards Codification. The guidance aligns the implementation date of the topic for annual financial statements of nonpublic companies with the implementation date for their interim financial statements. The guidance also clarifies that receivables arising from operating leases are not within the scope of the topic, but rather, should be accounted for in accordance with the leases topic. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently Issued Accounting Pronouncements, continued:

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

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

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

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

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

Risks and Uncertainties:

In the normal course of its business, the Company 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 Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company'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 Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Risks and Uncertainties, continued:

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.

Reclassifications:

Certain captions and amounts in the 2018 consolidated financial statements were reclassified to conform with the 2019 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

Note 2. Mergers and Acquisitions

On November 30, 2018, the Company acquired the outstanding common stock of Regional Bankshares, Inc. ("Heritage"), the bank holding company for Heritage Community Bank. In connection with the acquisition, the Company acquired $109.4 million of assets and assumed $101.4 million of liabilities.

The total purchase price was $11.3 million based on 751,176 shares of Heritage common stock, agreed to be purchased at $15 per share. The purchase price was paid in exchange for a combination of the Company's common stock and cash equal to a 60/40 ratio, resulting in $4.5 million in cash and the issuance of 225,227 shares of the Company's common stock valued at $6.8 million. Heritage shareholders received one share of the Company's common stock in exchange for two shares of Heritage common stock.

The Heritage transaction was accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date based on a third party valuation of significant accounts. Fair values are subject to refinement for up to a year.

Note 2. Mergers and Acquisitions, Continued

The following table presents the assets acquired and liabilities assumed as of November 30, 2018, as recorded by the Company on the acquisition date and initial fair value adjustments:

	Heritage	Adjustments	by the Company
Assets			
Cash and cash equivalents	$ 13,216	$ -	$ 13,216
Investment securities	5,934	-	5,934
Loans	82,444	(2,613)	79,831
Allowance for Loan Losses	(282)	282	-
Premises and equipment	4,091	335	4,426
Core Deposit Intangible	-	2,049	2,049
Other Real Estate Owned	150	-	150
Other assets	3,786	-	3,786
Total assets	$ 109,339	$ 53	$ 109,392
Liabilities			
Deposits	$ 91,631	$ (63)	$ 91,568
Advances from Federal Home Loan Bank	6,750	-	6,750
Junior subordinated debenture	3,093	(194)	2,899
Other Liabilities	261	(45)	216
Total liabilities	101,735	(302)	101,433
Net assets acquired over liabilities assumed			$ 7,959
Consideration:			
Value of stock issued		$ 6,757	
Cash exchanged for stock and fractional shares		4,511	
Total Fair Value of consideration transferred			$ 11,268
Goodwill			$ 3,309
Measurement period adjustment			(185)
Total Goodwill			$ 3,124

The merger included the acquisition of $82.4 million in gross loans and $91.6 million in deposits. The loan portfolio was purchased at a $2.6 million discount that will be accreted over the remaining maturity of the loans purchased. The deposits were purchased for a premium, including a $2 million core deposit intangible. The amortization of the core deposit intangible is based on the cash flows used to value the asset over a ten year life.

The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $3.3 million, representing the intangible value of Heritage's business within the markets it served. During 2019, the Company reduced goodwill recorded by $184,788 as a result of a measurement period adjustment recorded within the consolidated statements of income.

Note 3. Restrictions on Cash and Due From Banks

The Company is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. At December 31, 2019 and 2018, the required cash reserve was satisfied by vault cash and cash held at other financial institutions.

Note 4. Investment Securities

Securities available-for-sale consisted of the following:

	December 31, 2019			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 44,766	$ 6	$ (223)	$ 44,549
Mortgage backed securities	2,021	-	(6)	2,015
Obligations of state and local governments	19,465	278	(23)	19,720
U.S. Treasuries	5,463	42	(13)	5,492
	$ 71,715	$ 326	$ (265)	$ 71,776

	December 31, 2018			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 43,327	$ -	$ (1,750)	$ 41,577
Obligations of state and local governments	18,990	13	(465)	18,538
U.S. Treasuries	9,935	4	(143)	9,796
	$ 72,252	$ 17	$ (2,358)	$ 69,911

Note 4. Investment Securities, Continued

The following is a summary of maturities of securities available-for-sale as of December 31, 2019. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

(Dollars in thousands)	Securities Available-For-Sale Amortized Cost	Securities Available-For-Sale Estimated Fair Value
Due in one year or less	$ 1,489	$ 1,501
Due after one year but within five years	30,514	30,480
Due after five years but within ten years	35,227	35,283
Due after ten years	4,487	4,512
Total	$ 71,717	$ 71,776

At December 31, 2019 and 2018, investment securities with a book value of $27,518,140 and $23,741,093 and a market value of $27,756,341 and $23,027,025, respectively, were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

During 2019 and 2018, no securities classified as available-for-sale were sold.

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

Securities Available-for-Sale

	December 31, 2019					
	Less than twelve months		Twelve months or more		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government-sponsored enterprises	$ 30,571	$ 196	$ 3,473	$ 27	$ 34,044	$ 223
Mortgage backed securities	2,015	6	-	-	2,015	6
Obligations of state and local governments	2,063	16	671	7	2,734	23
U.S. Treasuries	499	1	1,483	12	1,982	13
	$ 35,148	$ 219	$ 5,627	$ 46	$ 40,775	$ 265

Note 4. Investment Securities, Continued

	December 31, 2018					
	Less than twelve months		Twelve months or more		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government-sponsored enterprises	$ -	$ -	$ 41,577	$ 1,750	$ 41,577	$ 1,750
Obligations of state and local governments	2,240	32	12,363	433	14,603	465
U.S. Treasuries	5,473	7	3,341	136	8,814	143
	$ 7,713	$ 39	$ 57,281	$ 2,319	$ 64,994	$ 2,358

Securities classified as available-for-sale are recorded at fair market value. Of the securities in an unrealized loss position at December 31, 2019, eleven individual securities were in a continuous loss position for twelve months or more. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of its amortized cost.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 5. Loans Receivable

Loans receivable consisted of the following at December 31, 2019 and 2018:

(Dollars in thousands)	2019	2018
Real estate - construction	$ 25,573	$ 28,314
Real estate - commercial	122,348	112,740
Real estate - residential	162,528	158,428
Commercial and industrial	47,164	48,646
Consumer and other	26,243	23,826
Total gross loans	383,856	371,954
Less allowance for loan losses	(3,577)	(3,317)
Loans, net	$ 380,279	$ 368,637

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2019:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 272	$ 778	$ 1,457	$ 625	$ 185	$ 3,317
Charge-offs	-	(6)	(33)	(227)	(148)	(414)
Recoveries	25	-	16	107	121	269
Provisions	38	99	184	64	20	405
Ending balance	$ 335	$ 871	$ 1,624	$ 569	$ 178	$ 3,577
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ 11	$ -	$ 11
Collectively evaluated for impairment	$ 335	$ 871	$ 1,624	$ 558	$ 178	$ 3,566
Loans receivable:						
Ending balance - total	$ 25,573	$ 122,348	$ 162,528	$ 47,164	$ 26,243	$ 383,856
Ending balances:						
Individually evaluated for impairment	$ 31	$ 1,444	$ 3,754	$ 204	$ 35	$ 5,468
Collectively evaluated for impairment	$ 25,542	$ 120,904	$ 158,774	$ 46,960	$ 26,208	$ 378,388

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2018:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 206	$ 1,355	$ 773	$ 698	$ 406	$ 3,438
Charge-offs	(84)	(1)	(30)	(93)	(92)	(300)
Recoveries	3	-	18	24	34	79
Provisions	147	(576)	696	(4)	(163)	100
Ending balance	$ 272	$ 778	$ 1,457	$ 625	$ 185	$ 3,317
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ 192	$ 64	$ -	$ 256
Collectively evaluated for impairment	$ 272	$ 778	$ 1,265	$ 561	$ 185	$ 3,061
Loans receivable:						
Ending balance - total	$ 28,314	$ 112,740	$ 158,428	$ 48,646	$ 23,826	$ 371,954
Ending balances:						
Individually evaluated for impairment	$ 36	$ 1,039	$ 1,590	$ 201	$ 35	$ 2,901
Collectively evaluated for impairment	$ 28,278	$ 111,701	$ 156,838	$ 48,445	$ 23,791	$ 369,053

Credit Quality Indicators

The Company uses a risk based approach based on the following credit quality measures when analyzing the loan portfolio: pass, watch, special mention, and substandard. These indicators are used to rate the credit quality of loans for the purposes of determining the Company's allowance for loan losses.

Grades 1, 2, and 3 are considered "Acceptable/Pass", and are deemed to be loans that are performing and are deemed adequately protected by the net worth of the borrower or the underlying collateral value. These loans are considered the least risky in terms of determining the allowance for loan losses.

Grades 4 is considered "Watch - Special Mention", respectively, and are deemed to be loans that 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 position at some future date.

Grade 5 is considered "Substandard", and is deemed to be loans that are considered the most risky. These loans typically have an identified weakness or weaknesses and are inadequately protected by the net worth of the borrower or collateral value.

Note 5. Loans Receivable, Continued

The following table lists the loan grades used by the Company as credit quality indicators and the balance in each category.

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2019:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total Loans Receivable
Grade 1	$ -	$ -	$ -	$ 1,825	$ 730	$ 2,555
Grade 3	25,302	119,691	157,598	44,907	25,415	372,913
Grade 4	156	1,271	2,694	244	47	4,412
Grade 5	115	1,386	2,236	188	51	3,976
	$ 25,573	$ 122,348	$ 162,528	$ 47,164	$ 26,243	$ 383,856

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2018:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total Loans Receivable
Grade 1	$ -	$ -	$ -	$ 1,902	$ 867	$ 2,769
Grade 3	27,992	107,949	152,813	46,099	22,832	357,685
Grade 4	112	2,809	1,651	256	69	4,897
Grade 5	210	1,982	3,964	389	58	6,603
	$ 28,314	$ 112,740	$ 158,428	$ 48,646	$ 23,826	$ 371,954

The following is an aging analysis of our loan portfolio at December 31, 2019:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Real estate - construction	$ 6	$ -	$ -	$ 6	$ 25,567	$ 25,573	$ -
Real estate - commercial	56	-	929	985	121,363	122,348	-
Real estate - residential	338	152	591	1,081	161,447	162,528	27
Commercial and industrial	113	59	48	220	46,944	47,164	20
Consumer and other	72	20	34	126	26,117	26,243	18
	$ 585	$ 231	$ 1,601	$ 2,418	$ 381,438	$ 383,856	$ 65

The following is an aging analysis of our loan portfolio at December 31, 2018:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Real estate - construction	$ 22	$ -	$ -	$ 22	$ 28,292	$ 28,314	$ -
Real estate - commercial	821	197	358	1,376	111,364	112,740	31
Real estate - residential	1,222	191	1,517	2,930	155,498	158,428	314
Commercial and industrial	112	58	134	304	48,342	48,646	11
Consumer and other	184	16	25	225	23,601	23,826	9
	$ 2,361	$ 462	$ 2,034	$ 4,857	$ 367,097	$ 371,954	$ 365

Note 5. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2019:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - construction	$ 31	$ 31	$ -	$ 34	$ -
Real estate - commercial	1,444	1,968	-	1,757	15
Real estate - residential	3,754	3,819	-	3,947	13
Commercial and industrial	176	176	-	188	8
Consumer and other	35	35	-	39	-
	5,440	6,022	-	5,965	36
With an allowance recorded:					
Commercial and industrial	28	28	11	28	1
	28	28	11	28	1
Total:					
Real estate - construction	$ 31	$ 31	$ -	$ 34	$ -
Real estate - commercial	1,444	1,968	-	1,757	15
Real estate - residential	3,754	3,819	-	3,947	13
Commercial and industrial	204	197	11	216	9
Consumer and other	35	35	-	39	-
	$ 5,468	$ 6,050	$ 11	$ 5,993	$ 37

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2018:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - construction	$ 36	$ 36	$ -	$ 40	$ -
Real estate - commercial	1,039	1,052	-	1,046	19
Real estate - residential	988	988	-	1,004	22
Commercial and industrial	112	112	-	137	5
Consumer and other	35	35	-	39	2
	2,210	2,223	-	2,266	48
With an allowance recorded:					
Real estate - residential	602	602	192	603	12
Commercial and industrial	89	89	64	97	5
	691	691	256	700	17
Total:					
Real estate - construction	$ 36	$ 36	$ -	$ 40	$ -
Real estate - commercial	1,039	1,052	-	1,046	19
Real estate - residential	1,590	1,590	192	1,607	34
Commercial and industrial	201	201	64	234	10
Consumer and other	35	35	-	39	2
	$ 2,901	$ 2,914	$ 256	$ 2,966	$ 65

Note 5. Loans Receivable, Continued

The following is an analysis of our nonaccrual loan portfolio recorded at December 31:

(Dollars in thousands)	2019	2018
Real estate - construction	$ 31	$ 36
Real estate - commercial	933	582
Real estate - residential	702	1,304
Commercial and industrial	28	144
Consumer and other	22	27
	$ 1,716	$ 2,093

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings (TDRs) as of December 31:

(Dollars in thousands)	2019	2018
Performing TDRs	$ 312	$ 356
Nonperforming TDRs	555	155
Total TDRs	$ 867	$ 511

Loans classified as TDRs may be removed from this status for disclosure purposes after a specified period of time if the subsequent restructured agreement specifies an interest rate equal to or greater than the rate that the lender was willing to accept at the time of the restructuring for a new loan with comparable risk, the loan is performing in accordance with the terms specified by the restructured agreement, and certain other criteria are met.

	For the year ended December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real Estate			
Residential	3	$ 443,525	$ 443,525
Total	3	$ 443,525	$ 443,525

No new loans were identified as TDRs and no loans previously identified as TDRs went into default (as defined by non-accrual classification) during the years ended December 31, 2019 and 2018.

Note 5. Loans Receivable, Continued

Acquired Loans:

On November 30, 2018, the Company acquired Heritage (see Note 2 for more information). PCI loans acquired totaled $0.8 million, and acquired performing loans totaled $78.4 million, both net of purchase discounts. The gross contractual amount receivable for PCI loans and acquired performing loans was approximately $1.2 million and $81.2 million, respectively, as of the acquisition date. The fair value of the total loan portfolio was estimated to be $79.8 million, which represents a $2.6 million discount. As of December 31, 2019 the discount on purchased loans to include both acquired performing loans and PCI loans totaled $1.7 million. During 2019, the Company record charge-offs on PCI loans totaling $240,000 and acquired performing loans totaling $157,066. During 2019, the Company recorded discount accretion on acquired loans totaling $525,000.

Note 6. Other Real Estate Owned

The following summarizes the activity in the other real estate owned for the years ended December 31:

(Dollars in thousands)	2019	2018
Balance, beginning of year	$ 523	$ 197
Additions	1,042	517
Sales	(658)	(165)
Writedowns	(290)	(26)
Balance, end of year	$ 617	$ 523

Note 7. Premises and Equipment

Premises and equipment is summarized as follows as of December 31:

(Dollars in thousands)	2019	2018
Land	$ 5,108	$ 5,108
Building and improvements	16,076	16,230
Furniture and equipment	6,053	5,711
Total	27,237	27,049
Less accumulated depreciation	(11,075)	(10,477)
Premises and equipment, net	$ 16,162	$ 16,572

Depreciation expense for the years ended December 31, 2019 and 2018 was $855,634 and $675,627, respectively.

Note 8. Goodwill and Core Deposit Intangible

The following table presents information about our core deposit intangible asset at December 31:

(Dollars in thousands)	2019		2018	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Finite lived intangible asset:				
Core deposit intangible	$ 2,049	$ 205	$ 2,049	$ -

Based on the core deposit intangibles as of December 31, 2019, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

(Dollars in thousands)	**Amount**
2020	$ 205
2021	205
2022	205
2023	205
2024 and thereafter	1,024
Total	$ 1,844

Amortization expense of $204,922 and $34,357 related to the core deposit intangibles was recognized in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, goodwill totaled $6,551,040 and $6,736,000, respectively. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. As of December 31, 2019 and 2018, management determined that no impairment existed on the goodwill. During 2019, the Company recorded a measurement period adjustment to goodwill of $184,788

Note 9. Deposits

At December 31, 2019, the scheduled maturities of certificates of deposit are as follows:

(Dollars in thousands)	**Amount**
2020	$ 103,270
2021	9,105
2022	2,295
2023	1,863
2024 and thereafter	1,488
Total	$ 118,021

Note 9. Deposits, Continued

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year end 2019 and 2018 were $18,811,000 and $15,296,000, respectively. The Company had brokered deposits of $1,241,000 as of December 31, 2019 and 2018.

Overdrawn transaction accounts in the amount of $370,974 and $301,618 were classified as loans as of December 31, 2019 and 2018, respectively.

Note 10. Advances from Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31, 2019 and 2018:

(Dollars in thousands)

Description	Current Interest Rate	2019 Balance	2018 Balance
Fixed rate advances maturing			
January 23, 2019	2.04%	$ -	$ 1,000
November 12, 2027	1.61%	4,000	4,000
November 12, 2027	1.41%	4,000	4,000
June 4, 2029	1.20%	5,000	-
June 4, 2029	1.13%	5,000	-
		$ 18,000	$ 9,000

Each of the advances are subject to early termination options. The FHLB reserves the right to terminate each agreement at an earlier date.

As collateral, the Bank has pledged first mortgage loans on one to four family residential loans aggregating $74,345,177 at December 31, 2019. In addition, the Company's Federal Home Loan Bank stock is pledged to secure the borrowings. Certain advances are subject to prepayment penalties.

Note 11. Lease Commitments

Effective January 1, 2019, the Company adopted ASC 842 "Leases". Currently, the Company has an operating lease on one of its facilities that is accounted for under this standard. As a result of this standard, the Company recognized a right-of-use asset and a lease liability of $687,342, respectively.

Rental expense recorded under leases for the years ended December 31, 2019 and 2018 was $182,360 and $173,370, respectively, and recorded in other operating expenses within the consolidated statements of income.

Note 11. Lease Commitments, Continued

The weighted average remaining lease term as of December 31, 2019 is 8.08 years and the weighted average discount rate used is 3.35%. The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follow:

(Dollars in thousands)	**Amount**
2020	$ 90
2021	90
2022	90
2023	90
2024 and thereafter	368
Total undiscounted lease payments	728
Less effect of discounting	(91)
Present value of estimate lease payments (lease liability)	$ 637

Note 12. Revenue Recognition

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

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Deposit Service Charges: The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Note 12. Revenue Recognition, Continued

Check Card Fee Income: Check card fee income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income. This income is recognized within “Other” below.

Gains/Losses on OREO Sales: Gains/losses on the sale of OREO are included in non-interest 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.

	For the year ended December 31,	
(Dollars in thousands)	**2019**	**2018**
Noninterest income:		
Service charges on deposit accounts	$ 2,620	$ 2,161
Residential mortgage originations fees [(1)]	444	252
Brokerage fees [(1)]	408	440
Income from cash surrender value of life insurance [(1)]	189	111
Credit card and interchange fees [(2)]	1,690	1,315
Other operating income [(1)]	1,295	615
Total noninterest income	$ 6,646	$ 4,894

[(1)] Not within the scope of ASC 606
[(2)] Includes Check Card Fee income discussed above

Note 13. Stock Options

The Company entered into a stock option agreement with two entities that are controlled by several major shareholders of the Company that provides for the purchase of shares of common stock at a price of $2.64 per share.

There were 79,602 options outstanding as of December 31, 2019 and 2018. As of December 31, 2019, all of the outstanding options were exercisable. None of the options outstanding at December 31, 2019 have an expiration date. The aggregate intrinsic value of these options was $2,257,513 and $2,177,911 at December 31, 2019 and 2018, respectively. During 2019 and 2018, no options were exercised.

Note 14. Earnings Per Share

Earnings per share - basic is computed by dividing net income by the weighted average number of common shares outstanding. Earnings per share - diluted is computed by dividing net income by the weighted average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock options. Unallocated common shares held by the employee retirement and stock ownership plan are excluded from the weighted average number of common shares outstanding.

(Dollars in thousands, except share and per share amounts)	**2019**	**2018**
Basic earnings per common share:		
Net income available to common shareholders	$ 5,639	$ 4,249
Basic average common shares outstanding	1,969,246	1,763,202
Basic earnings per common share	$ 2.86	$ 2.41
Diluted earnings per common share:		
Net income available to common shareholders	$ 5,639	$ 4,249
Basic average common shares outstanding	1,969,246	1,763,202
Incremental shares from assumed conversions:		
Stock options	72,823	72,387
Diluted average common shares outstanding	$ 2,042,069	1,835,589
Diluted earnings per common share	$ 2.76	$ 2.31

Note 15. Capital Requirements and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the 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 material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications 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 Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Bank is also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Note 15. Capital Requirements and Regulatory Matters, Continued

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is also required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 at 0.625% and becoming fully effective on January 1, 2019, and ultimately consisting of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

As of December 31, 2019, the most recent notifications from the Bank's primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's categories.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2019 and 2018:

(Dollars in thousands)	**Actual**		**For capital adequacy purposes**		**To be well capitalized under prompt corrective action provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2019						
The Bank						
Total capital (to risk weighted assets)	$ 59,114	15.11%	$ 31,303	8.00%	$ 39,129	10.00%
Tier 1 capital (to risk weighted assets)	55,537	14.19%	23,478	6.00%	31,303	8.00%
Tier 1 capital (to average assets)	55,537	9.73%	22,838	4.00%	28,547	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	55,537	14.19%	17,608	4.50%	25,434	6.50%

(Dollars in thousands)	**Actual**		**For capital adequacy purposes**		**To be well capitalized under prompt corrective action provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2018						
The Bank						
Total capital (to risk weighted assets)	$ 53,565	14.51%	$ 29,542	8.00%	$ 36,927	10.00%
Tier 1 capital (to risk weighted assets)	50,248	13.61%	22,156	6.00%	29,542	8.00%
Tier 1 capital (to average assets)	50,248	10.83%	18,562	4.00%	23,202	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	50,248	13.61%	16,617	4.50%	24,003	6.50%

Note 16. Restrictions on Dividends, Loans, and Advances

The ability of the Company to pay cash dividends to shareholders is dependent on its ability to receive cash, in the form of dividends from the Bank. South Carolina banking regulations restrict the amount of dividends that can be paid to shareholders. All of the Bank's dividends to the parent company are payable only from the retained earnings of the Bank. At December 31, 2019, the Bank's retained earnings were $46,032,841. The Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the Commissioner of Banking provided that the Bank received a composite rating of one or two at the last Federal or State regulatory examination. Under Federal Reserve Board regulations, the amounts of loans or advances from the Bank to the parent company are also restricted.

Note 17. Employee Retirement and Stock Ownership Plan

The Company sponsors an employee retirement and stock ownership plan. Employees eligible for the Company stock component of the KSOP plan include all employees who work at least 1,000 hours during the initial twelve consecutive months of employment, or any plan year beginning after the date of employment. The Company periodically makes discretionary contributions to the KSOP. For the years ended December 31, 2019 and 2018, the Company contributed $156,511 and $147,373 to the KSOP, respectively.

Shares of the Company held by the KSOP are as follows at December 31:

	2019	2018
Allocated shares	84,294	84,683
Shares released for allocation	-	-
Unreleased shares	-	-
	84,294	84,683

Note 18. Income Taxes

The Tax Cuts and Jobs Act (TCJA) was signed into law by the President on December 22, 2017. The TCJA includes the reduction in the corporate tax rate from a top rate of 35% to a flat rate of 21% beginning in 2018, changes in business deductions, and many international provisions.

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

(Dollars in thousands)	2019	2018
Current income tax expense:		
Federal	$ 1,441	$ 1,117
State	263	194
Total current	1,704	1,311
Deferred income tax expense	0	53
Income tax expense	$ 1,704	$ 1,364

Note 18. Income Taxes, Continued

The components of the net deferred tax asset were as follows as of December 31:

(Dollars in thousands)	2019	2018
Deferred tax assets:		
Other real estate owned	$ 144	$ 87
Allowance for loan losses	665	601
Interest on nonaccrual loans	47	50
Reserve for contingencies	21	45
Unrealized loss on securities available for sale	-	611
Mark-to-market purchase accounting	-	117
Unearned income	6	6
Net operating losses	461	511
Other	290	-
Gross deferred tax assets	1,634	2,028
Valuation allowance	86	77
Net deferred tax assets	1,548	1,951
Deferred tax liabilities:		
Accumulated depreciation	522	245
Goodwill	112	99
Mark-to-market purchase accounting	16	-
Deferred loan costs	80	-
Unrealized gain on securities available for sale	13	-
Other	-	244
Total deferred tax liabilities	743	588
Net deferred tax asset	$ 805	$ 1,363

Tax returns for 2016 and subsequent years are subject to examination by taxing authorities.

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2019 and 2018, management has recorded a valuation allowance of approximately $86,000 and $77,000, respectively. The valuation allowance is associated with South Carolina net operating losses at the Holding Company. Management determined that it is more likely than not that the remaining deferred tax asset at December 31, 2019 and 2018 will be realized and, accordingly, did not establish a valuation allowance on those assets.

The Company has federal net operating losses of $1,758,894 as of December 31, 2019, which have no expiration. The Company has state net operating losses of $2,314,787 for the year ended December 31, 2019. These state losses begin to expire in the year 2024. As a result of the Heritage ownership change in 2018, Section 382 of the Internal Revenue Code places an annual limitation on the amount of federal net operating loss carryforwards which the Company may utilize. The Company expects the remaining Section 382 limited carryforwards to be realized within the applicable carryforward period.

Note 18. Income Taxes, Continued

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

(Dollars in thousands)	2019	2018
Tax expense at statutory rate	$ 1,542	$ 1,179
State income tax, net of federal income tax benefit	208	153
Tax-exempt interest income	(93)	(82)
Nondeductible interest expense to carry tax-exempt instruments	4	2
Change in valuation allowance	9	69
Other, net	34	43
Total	$ 1,704	$ 1,364

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740.

Note 19. Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) provide a framework for measuring and disclosing fair value that 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 that 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 the lower of cost or market accounting or the writing down of individual assets.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

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.

Note 19. Fair Value of Financial Instruments, Continued

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.

Loans - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2019 and 2018, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where 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 recorded the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Note 19. Fair Value of Financial Instruments, Continued

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

(Dollars in thousands)	December 31, 2019 Total	Level 1	Level 2	Level 3
Government-sponsored enterprises	$ 44,549	$ -	$ 44,549	$ -
Mortgage backed securities	2,015	-	2,015	-
Obligations of state and local governments	19,720	-	19,720	-
U.S. Treasuries	5,492	-	5,492	-
Total	$ 71,776	$ -	$ 71,776	$ -

(Dollars in thousands)	December 31, 2018 Total	Level 1	Level 2	Level 3
Government-sponsored enterprises	$ 41,577	$ -	$ 41,577	$ -
Obligations of state and local governments	18,538	-	18,538	-
U.S. Treasuries	9,796	-	9,796	-
Total	$ 69,911	$ -	$ 69,911	$ -

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy described above for which a nonrecurring change in fair value has been recorded as of December 31, 2019 and 2018.

(Dollars in thousands)	December 31, 2019 Total	Level 1	Level 2	Level 3
Other real estate owned	$ 617	$ -	$ -	$ 617
Impaired loans, net specific reserve:				
Real estate - construction	31	-	-	31
Real estate - commercial	1,444	-	-	1,444
Real estate - residential	3,754	-	-	3,754
Commercial and industrial	193	-	-	193
Consumer and other	35	-	-	35
Total impaired loans, net specific reserve	5,457	-	-	5,457
Total	$ 6,074	$ -	$ -	$ 6,074

Note 19. Fair Value of Financial Instruments, Continued

(Dollars in thousands)	December 31, 2018 Total	Level 1	Level 2	Level 3
Other real estate owned	$ 523	$ -	$ -	$ 523
Impaired loans, net specific reserve:				
Real estate - construction	36	-	-	36
Real estate - commercial	1,039	-	-	1,039
Real estate - residential	1,398	-	-	1,398
Commercial and industrial	137	-	-	137
Consumer and other	35	-	-	35
Total impaired loans, net specific reserve	2,645	-	-	2,645
Total	$ 3,168	$ -	$ -	$ 3,168

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2019 and December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value as of December 31, 2019	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 5,457	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	$ 617	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

	Fair Value as of December 31, 2018	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 2,645	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	$ 523	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

The Company has no liabilities measured at fair value on a non-recurring basis.

Note 19. Fair Value of Financial Instruments, Continued

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and non-recurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2019 and 2018.

	December 31,			
	2019		2018	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 82,832	$ 82,832	$ 54,193	$ 54,193
Securities available-for-sale	71,776	71,776	69,911	69,911
Nonmarketable equity securities	1,304	1,304	1,179	1,179
Loans held for investment, net	380,279	387,206	368,637	367,656
Deposits	489,764	489,510	468,744	467,518
Securities sold under agreement to repurchase	4,692	4,692	-	-
Advances from the Federal Home Loan Bank	18,000	16,620	9,000	7,933
Subordinated debentures	2,948	2,948	2,899	2,899

Cash and cash equivalents
The carrying amount approximates fair value for these instruments.

Investment securities
The fair value of investment securities are generally determined using widely accepted valuation techniques including market prices, matrix pricing, and broker-quote-based applications.

Loans held for investment
Fair values are estimated for portfolios of loans with similar financial characteristics if collateral-dependent. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield and other risks inherent in the loan. The estimate of maturity is based upon the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant non-performing loans is generally based upon recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discounted rates are judgmentally determined using available market information and specific borrower information.

Note 19. Fair Value of Financial Instruments, Continued

Nonmarketable equity securities
Nonmarketable equity securities are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

Deposits
The fair value of deposits with no stated maturity date, such as noninterest-bearing demand deposits, savings and money market and checking accounts, is based on the discounted value of estimated cash flows. The fair value of time deposits is based upon the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances
Fair value is estimated based on discounted cash flows using current market rates for borrowing with similar terms and are classified as of Level 2.

Subordinated debentures
The fair value of subordinated debentures is estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments these are classified as Level 2.

Other borrowings
The fair value of federal funds purchased and securities under agreements to repurchase approximate the carrying amount because of the short maturity of these borrowings.

Note 20. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings, which would have a material adverse effect on the financial position or operating results of the Company.

Note 21. Unused Lines of Credit

At December 31, 2019, the Company had unused lines of credit to purchase federal funds from other financial institutions totaling $40,000,000. Under the terms of the agreements, the Company may borrow at mutually agreed-upon rates for one to fifteen day periods. The Company also has a line of credit to borrow funds from the Federal Home Loan Bank which totaled $74,345,177 as of December 31, 2019. As of December 31, 2019, the Bank had borrowed $18,000,000 on this line.

Note 22. Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Note 22. Financial Instruments With Off-Balance Sheet Risk, Continued

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counter-party.

Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties. The following table summarizes the Company's off-balance-sheet financial instruments whose contract amounts represent credit risk as of December 31:

(Dollars in thousands)	**2019**	**2018**
Commitments to extend credit	$ 45,321	$ 44,270
Standby letters of credit	937	986

Note 23. Related Party Transactions

Certain parties (principally certain directors and shareholders of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Bank. 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 normal risk of collectability. The aggregate dollar amount of loans to related parties was $3,279,963 and $3,895,669 at December 31, 2019 and 2018, respectively.

Deposits by directors including their affiliates and executive officers totaled approximately $2,985,394 and $3,516,669 at December 31, 2019 and 2018, respectively.

Note 24. 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 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1.00% on March 3, 2020 for the first time. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%. This rate was further reduced to 0% to 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.

Management has reviewed events occurring through April 1, 2020, the date the financial statements were available to be issued and no other subsequent events occurred requiring accrual or disclosure.

Note 25. Citizens Bancshares Corporation (Parent Company Only)

Following is condensed financial information of Citizens Bancshares Corporation (parent company only) as of and for the years ended December 31:

Condensed Balance Sheets

(Dollars in thousands)	December 31, 2019	December 31, 2018
Assets		
Cash	$ 793	$ 607
Investment in banking subsidiary	61,080	54,465
Goodwill	2,899	2,899
Other assets	93	93
Total assets	$ 64,865	$ 58,064
Liabilities		
Junior subordinated debenture	$ 2,947	$ 2,899
Shareholders' equity	$ 61,918	$ 55,165
Total liabilities and shareholders' equity	$ 64,865	$ 58,064

Note 25. Citizens Bancshares Corporation (Parent Company Only), Continued

Condensed Statements of Income

	For the years ended December 31, 2019	2018
Income		
Dividends from banking subsidiary	$ 1,000	$ 5,500
Total income	1,000	5,500
Expenses		
Miscellaneous expenses	64	19
Interest expense	134	32
Total expenses	198	51
Income before income taxes and equity in undistributed earnings (loss) of banking subsidiary	802	5,449
Net equity in undistributed earnings (loss) of banking subsidiary	4,837	(1,200)
Net income	$ 5,639	$ 4,249

Condensed Statements of Cash Flows

	For the years ended December 31, 2019	2018
Operating activities		
Net income	$ 5,639	$ 4,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Net equity in undistributed loss (earnings) of subsidiaries	(4,837)	1,200
Amortization of discount on junior subordinated debentures	48	-
Net cash disbursed in business combination	-	(4,345)
Net cash provided by operating activities	850	1,104
Cash flows from financing activities		
Cash dividends paid	(629)	(523)
Treasury stock purchased	(35)	-
Net cash used in financing activities	(664)	(523)
Net increase in cash and cash equivalents	186	581
Cash, beginning of year	607	26
Cash, ending of year	$ 793	$ 607

Citizens Bancshares Corporation Board of Directors

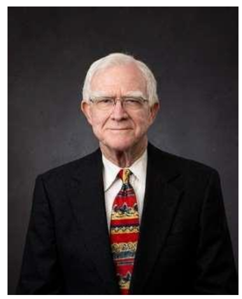
Robert W. Askins
General Contractor
RW Askins Construction, Inc.

James H. Johnson
Johnson Management Services

Joseph L. Bostick, Jr.
Retired Oil Distributor

Samuel A. Rodgers Jr.
Executive Vice President
Carolina Eastern, Inc.

Gosnold G. Segars
President
G. Graham Segars & Sons, Inc.
Real Estate Brokerage



Michael L. Hodge, M.D.
Neurologist
McLeod Health

C. Dorn Smith, III, M.D.
Chief Executive Officer &
Chairman of the Board
Cardio Thoracic Surgeon
Williamsburg Regional Hospital

Dawn M. Munn
Pharmacist
CVS

Not Pictured

Dixie S. Bullock
Director

Not Pictured

Andrew B. Smith
Director

The Citizens Bank Board of Directors

Robert W. Askins
General Contractor
RW Askins Construction, Inc.

James H. Johnson
Johnson Management Services

Joseph L. Bostick, Jr.
Retired Oil Distributor

Michael L. Hodge, M.D.
Neurologist
McLeod Health

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Retired Bank Officer

Samuel A. Rodgers Jr.
Executive Vice President
Carolina Eastern, Inc.

C. Dorn Smith, III, M.D.
Chief Executive Officer &
Chairman of the Board
Cardio Thoracic Surgeon
Williamsburg Regional Hospital

Philip M. Smith
Retired Bank Officer

Gosnold G. Segars
President
G. Graham Segars & Sons, Inc.
Real Estate Brokerage

Executive Officers

C. Dorn Smith, III, M.D.
Chief Executive Officer
Chairman of the Board

H. Blake Gibbons, Jr.
Vice Chairman

Thomas Bouchette
President
Chief Operating Officer

William J. Heustess, Jr.
Executive Vice President
Chief Credit Officer

James E. Roberts, II
Senior Vice President
Chief Financial Officer

R. Ashley Wheeler, Jr.
Executive Vice President
Chief Administrative Officer

Richard W. McCutcheon
Senior Vice President

Corporate Office

C. Dorn Smith, III	Chief Executive Officer
H. Blake Gibbons, Jr.	Vice Chairman
Thomas Bouchette	President
William J. Heustess, Jr.	Executive Vice President
R. Ashley Wheeler, Jr.	Executive Vice President
James E. Roberts, II	Senior Vice President
Sherry D. Coker	Vice President
Robert F. Dukes, Jr.	Vice President
Margi M. Fleming	Vice President
Glenn D. Buddin, Jr.	Vice President
Cheryl A. Matthews	Assistant Vice President
Sherry P. Matthews	Assistant Vice President
Heather R. Thomy	Assistant Vice President

Operations Center

Teresa L. Floyd	Vice President
Thomas D. Ham, II	Vice President
Rheba C. Welch	Vice President
Leah C. Hancock	Assistant Vice President
Elizabeth M. Atkinson	Assistant Vice President
Eric M. Pagan	Banking Officer

Olanta Branch

Randal E. Carter	Vice President

Turbeville Branch

Susan H. Alexander	Vice President

Lake City Branch

Richard W. McCutcheon	Senior Vice President
Robert S. Phillips, II	Assistant Vice President

Sumter Branch

W. David Keller	Senior Vice President
Samuel T. Dubose	Vice President
Paul E. Robbins	Vice President
Steven D. Cook	Assistant Vice President

Pawleys Island Branch

Joel W. Odom	Senior Vice President
Elliott S. Koonce	Vice President
William D. Starnes	Vice President

Timmonsville Branch

Sharon L. Greene	Vice President
Jan G. Vause	Banking Officer

St. George Branch

William M. Utsey, Jr.	Senior Vice President
Gregory P. Shuler	Vice President

Florence-Pamplico Hwy Branch

Treasa Kim Sauls	Vice President
Shirley J. Greene	Assistant Vice President
Gwendolyn A. Dutton	Assistant Vice President

Florence-Palmetto Street Branch

John T. Hanna	Senior Vice President
Cherry T. Gerald	Assistant Vice President
Adam V. Gamble	Assistant Vice President
Robin A. Poston	Banking Officer

Pamplico Branch

Pamela M. Turner	Assistant Vice President

Johnsonville Branch

Ronald L. Coker, Jr.	Assistant Vice President

Georgetown Branch

Teresa M. Harrelson	Assistant Vice President

Kingstree Branch

Alan K. Chandler	Vice President
Glenda Miller	Banking Officer

Murrells Inlet Branch

Gregory A. Badgett	Assistant Vice President
Cara Gerrets	Vice President

Hartsville Branch

J. Darrell Cassidy	Vice President
William M. Scarborough, Jr.	Vice President
P. Ross Johnson	Assistant Vice President

McBee Branch

Denise L. Tedder	Banking Officer
Lynda Weatherford	Banking Officer

Camden Branch

Deborah P. Outlaw	Vice President

THE CITIZENS BANK

Annual Financial Disclosure Statement
furnished pursuant to Part 350 of the Federal Deposit
Insurance Corporation's rules and regulations

For the year ended December 31, 2019

**THIS STATEMENT HAS NOT BEEN REVIEWED,
OR CONFIRMED FOR ACCURACY OR RELEVANCE BY THE
FEDERAL DEPOSIT INSURANCE CORPORATION.**

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