

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - QSB

**(X) QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) TO THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended **September 30, 2001**

() TRANSITION REPORT UNDER SECTION 13 OR 15 (d) TO THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File No: 0 - 14535

CITIZENS BANCSHARES CORPORATION

(Name of small business issuer in its charter)

Georgia

58 - 1631302

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

175 John Wesley Dobbs Avenue, N.E., Atlanta, Georgia

30303

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code: **(404) 659 - 5959**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the 90 days. Yes X No .

State the number of shares outstanding for each of the issuer's classes of common equity as of the latest practicable date: 2,068,213 shares of Common Stock, \$1.00 par value and 90,000 shares of Non-Voting Common Stock, \$1.00 par value outstanding on October 26, 2001.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited - in thousands)

	September 30, 2001	December 31, 2000
ASSETS		
Cash and due from banks	\$ 11,505	\$ 12,118
Federal funds sold	410	50
Interest-bearing deposits with banks	7,521	13,004
Certificates of deposit	3,095	995
Investment securities available for sale, at fair value (amortized cost of \$48,972 in 2001 and \$58,462 in 2000)	50,003	59,106
Investment securities held to maturity, at cost (estimated fair value of \$2,794 in 2001 and \$5,497 in 2000)	2,676	5,431
Other investments	1,511	1,511
Loans held for sale	1,039	264
Loans, net of unearned income and discounts	159,093	160,025
Less: Allowance for loan losses	(1,882)	(2,673)
Loans, net	157,211	157,352
Property held for sale	-	388
Premises and equipment, net	6,353	6,745
Cash surrender value of life insurance	6,930	6,073
Other assets	3,947	4,241
	<u>\$ 252,201</u>	<u>\$ 267,278</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing deposits	\$ 50,719	\$ 55,228
Interest-bearing deposits	164,781	175,635
Total deposits	215,500	230,863
Accrued expenses and other liabilities	2,932	3,779
Notes payable	1,460	639
Advances from Federal Home Loan Bank	10,000	10,000
Total liabilities	<u>229,892</u>	<u>245,281</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock - \$1 par value; 20,000,000 shares authorized; 2,230,065 shares issued and outstanding	2,230	2,230
Nonvoting common stock - \$1 par value; 5,000,000 shares authorized; 90,000 issued and outstanding	90	90
Additional paid-in capital	7,445	7,445
Retained earnings	13,298	12,907
Treasury stock, 161,852 and 115,526 shares at cost at September 30, 2001 and December 31, 2000, respectively	(1,435)	(1,090)
Accumulated other comprehensive income - unrealized gain on investment securities available for sale	681	415
Total stockholders' equity	<u>22,309</u>	<u>21,997</u>
	<u>\$ 252,201</u>	<u>\$ 267,278</u>

See notes to consolidated financial statements.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited - in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Interest income:				
Loans, including fees	\$ 3,675	\$ 3,973	\$ 11,477	\$ 11,382
Investment securities:				
Taxable	564	699	1,868	2,089
Tax-exempt	153	117	429	346
Federal funds sold	9	5	27	29
Interest-bearing deposits	<u>116</u>	<u>76</u>	<u>472</u>	<u>169</u>
Total interest income	<u>4,517</u>	<u>4,870</u>	<u>14,273</u>	<u>14,015</u>
Interest expense:				
Deposits	1,602	1,762	5,293	5,000
Other borrowings	<u>175</u>	<u>275</u>	<u>487</u>	<u>582</u>
Total interest expense	<u>1,777</u>	<u>2,037</u>	<u>5,780</u>	<u>5,582</u>
Net interest income	2,740	2,833	8,493	8,433
Provision for loan losses	<u>670</u>	<u>90</u>	<u>1,730</u>	<u>240</u>
Net interest income after provision for loan losses	<u>2,070</u>	<u>2,743</u>	<u>6,763</u>	<u>8,193</u>
Noninterest income:				
Service charges on deposit accounts	974	935	2,830	2,622
Gain on sales of securities	54	-	978	-
Gain on sales of assets	-	-	390	745
Origination fees from mortgage company	464	591	1,397	1,889
Other operating income	<u>242</u>	<u>451</u>	<u>1,135</u>	<u>1,067</u>
Total noninterest income	<u>1,734</u>	<u>1,977</u>	<u>6,730</u>	<u>6,323</u>
Noninterest expense:				
Salaries and employee benefits	1,892	1,883	5,752	5,664
Net occupancy and equipment	603	558	1,932	1,819
Other operating expenses	<u>2,104</u>	<u>1,570</u>	<u>4,899</u>	<u>4,320</u>
Total noninterest expense	<u>4,599</u>	<u>4,011</u>	<u>12,583</u>	<u>11,803</u>
Income (loss) before income taxes	(795)	709	910	2,713
Income tax expense (benefit)	<u>(324)</u>	<u>200</u>	<u>144</u>	<u>765</u>
Net income (loss)	<u>\$ (471)</u>	<u>\$ 509</u>	<u>\$ 766</u>	<u>\$ 1,948</u>
Other comprehensive income, net of taxes	<u>414</u>	<u>638</u>	<u>266</u>	<u>737</u>
Comprehensive income (loss)	<u>\$ (57)</u>	<u>\$ 1,147</u>	<u>\$ 1,032</u>	<u>\$ 2,685</u>
Net income (loss) per share - basic and diluted	<u>\$ (0.22)</u>	<u>\$ 0.23</u>	<u>\$ 0.35</u>	<u>\$ 0.87</u>
Weighted average outstanding shares - basic and diluted	<u>2,175</u>	<u>2,228</u>	<u>2,183</u>	<u>2,228</u>

See notes to consolidated financial statements.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001, AND 2000

(Unaudited - in thousands)

	2001	2000
OPERATING ACTIVITIES:		
Net income	\$ 766	\$ 1,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,730	240
Depreciation	887	644
Amortization and accretion, net	65	64
Gain on sale of assets and securities	(1,368)	(745)
Change in mortgage loans held for sale	(775)	(1,300)
Change in property held for sale	-	(383)
Change in other assets	295	(841)
Change in accrued expenses and other liabilities	(847)	447
Net cash provided by operating activities	753	74
INVESTING ACTIVITIES:		
Proceeds from maturities and sales of investments:		
Securities held to maturity	556	727
Securities available for sale	55,280	14
Purchases of investments:		
Securities available for sale	(42,798)	(1,365)
Purchases of certificates of deposit	(2,100)	(995)
Net decrease in other investments	-	418
Net cash and due from banks acquired from FDIC	-	3,208
Net change in loans	(1,589)	(10,175)
Proceeds from sale of premises and equipment	346	-
Purchases of premises and equipment	(573)	(1,230)
Increase of cash value life insurance policies	(857)	(1,089)
Net change in interest bearing deposits with banks	5,483	(7,397)
Proceeds from sale of property held for sale	509	2,150
Net expenditures on foreclosed real estate	-	(27)
Net change in Federal Funds sold	(360)	625
Net cash provided by (used in) investing activities	13,897	(15,136)
FINANCING ACTIVITIES:		
Net change in demand deposits	(4,509)	3,611
Net change in interest-bearing deposits	(10,854)	11,162
Borrowings from line of credit	1,020	861
Principal payments on debt	(200)	(200)
Purchase of treasury stock	(345)	-
Dividends paid	(375)	(356)
Net cash provided by (used in) financing activities	(15,263)	15,078
Net change in cash and due from banks	(613)	16
CASH AND DUE FROM BANKS:		
Beginning of period	12,118	11,898
End of period	\$ 11,505	\$ 11,914
Supplemental disclosures of cash paid during the year for:		
Interest	\$ 6,402	\$ 5,134
Income taxes	\$ 595	\$ 665
Change in unrealized gain on investment securities available for sale, net of tax	\$ 266	\$ 737
Securities held to maturity transferred to available for sale	\$ 1,199	\$ -

See notes to consolidated financial statements.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2001 and 2000
(unaudited)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Citizens Bancshares Corporation (the "Company") is a holding company that provides a full range of commercial banking and mortgage brokerage services to individual and corporate customers in metropolitan Atlanta and Columbus, Georgia through its wholly owned subsidiaries, Citizens Trust Bank (the "Bank") and Citizens Trust Bank Mortgage Services, Inc. ("Mortgage Services").

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-QSB. Accordingly, certain disclosures required by generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-KSB.

The consolidated financial statements of the Company as of September 30, 2001 and December 31, 2000, and for the three and nine month periods ended September 30, 2001 and 2000 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the financial position and results of operations and cash flows for the three month and nine month periods have been included. All adjustments are of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation.

ACCOUNTING POLICIES

Reference is made to the accounting policies of the Company described in the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000. The Company has followed those policies in preparing this report.

ACQUISITION

On March 10, 2000, the Company, through its bank subsidiary, entered into a Purchase and Assumption Agreement (the "Agreement") with the Federal Deposit Insurance Corporation to purchase certain assets and assume all of the deposits of a failed institution. The Company paid a premium of approximately \$2.5 million for the deposits assumed (\$28.6 million) and received approximately \$3.1 million as a discount on the loans purchased (\$26.0 million). The Company also obtained due from other banks of approximately \$2.0 million. The assets and liabilities were recorded at their estimated fair values at the date of acquisition. Premiums paid on deposits and discounts received on loans are being accreted/amortized over the estimated lives of the deposits assumed and the loans purchased.

COMMON STOCK

Basic net income per share (EPS) is computed based on net income divided by the weighted average number of common share equivalents outstanding. Diluted EPS is computed based on net income divided by the weighted average number of common and potential common shares. The only potential common shares are those related to stock options; however, such options were antidilutive, so diluted EPS is the same as basic EPS.

Effective August 29, 2001, The Company amended and restated its Articles of Incorporations, in part, to increase the number of authority shares from 5,000,000 to 20,000,000 shares. As a result, the Company can issue 25,000,000 shares consisting of (i) 20,000,000 shares of Common Stock (the "Common Stock"), \$1.00 par value, and (ii) 5,000,000 shares of non-voting common stock (the "Non-Voting Common Stock"), \$1.00 par value. The shares of Non-Voting Common Stock, except for voting, have the same preferences, limitations and relative rights as Common Stock.

STOCK REPURCHASE PROGRAM

On August 27, 2001, the Company's announced it intends to repurchase up to 260,000 shares of its common stock under a buy-back program. The shares will be predominantly purchased in the open market over the next twenty-four months, depending on market conditions and other factors. As of September 30, 2001, the Company has repurchased 20,000 shares of its common stock under the 2001 stock buy-back program.

RECENT ACCOUNTING PRONOUNCEMENTS

In June, 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability at its fair value. The Statement requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133," which delayed the original effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amends SFAS No. 133. SFAS No. 138 addresses a limited number of issues related to the implementation of SFAS No. 133. The adoption of SFAS No. 133 did not have an impact on the Company's consolidated financial position or consolidated results of operations.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which replaces SFAS No. 125. SFAS No. 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires substantial disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. The statements provide accounting and reporting standards for such transactions based on consistent application of a financial components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The adoption of SFAS No. 140 did not have a material impact on the Company's consolidated financial position or consolidated results of operations.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001, and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on January 1, 2002 and it has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

RECLASSIFICATIONS

Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward Looking Statements

This report contains forward-looking statements which are subject to numerous assumptions, risks and uncertainties. In preparing this report, management is required to make estimates and assumptions that affect the reported amounts in the consolidated financial statements such as the allowance for loan losses and valuation allowances associated with the recognition of deferred tax assets. Statements pertaining to future periods are subject to uncertainty because of the possibility of changes in underlying factors and assumptions. Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including: sharp and/or rapid changes in interest rates; significant changes in the economic scenario from the current anticipated scenario which could materially change anticipated credit quality trends and the ability to generate loans; significant delay in or inability to execute strategic initiatives designed to grow revenues and/or control expenses; unanticipated issues during the integration of acquisitions; and significant changes in accounting, tax or regulatory policies or requirements.

INTRODUCTION

Citizens Bancshares Corporation (the "Company") is a holding company that wholly owns two subsidiaries, Citizens Trust Bank (the "Bank") and Citizens Trust Bank Mortgage Services, Inc. ("Mortgage Services"). The Company, through its bank and mortgage subsidiaries, provide a full range of commercial banking and mortgage brokerage services to individuals and corporate customers in its primary market areas, metropolitan Atlanta and Columbus, Georgia. The Bank is a member of the Federal Reserve System and operates under a state charter. The Company serves its customers through 11 full-service branches in metropolitan Atlanta and Columbus, Georgia, and its mortgage subsidiary headquarters. The Company continues to leverage technology to provide customers the convenience of banking on the internet, through its network of automated teller machines and via twenty-four hours telebanking.

The following discussion is of the Company's financial condition as of September 30, 2001 and the changes in the financial condition and results of operations for the nine month periods ended September 30, 2001 and 2000.

FINANCIAL CONDITION

Citizens Bancshares Corporation's total assets for the nine month period ended September 30, 2001, decreased by \$15,077,000 to \$252,201,000 or 5.64%. The decrease is primarily due to Corporate and Governmental customers that make significant monthly deposits and withdrawals. These funds fluctuate monthly due to the operating needs of the public entity. Consequently, the Company's interest bearing deposits at other banks decreased \$5,483,000 or 42.16%. This decrease was offset by the purchase of \$2,100,000 in certificates of deposits. The certificates of deposit purchases are attributed to the Company's involvement with the U. S. Department of Treasury Community Development Financial Institution Program ("CDFI"). For its involvement in the CDFI program, the Company receives a grant which is awarded annually. However, the continuation of the CDFI program is contingent upon funds being budgeted for program by the Federal Government.

Similarly, the decrease in investment securities of \$11,858,000 or 18.37% is primarily due to the maturity of a short-term investment matched to approximately \$10,000,000 in short-term deposits from a local government customer.

From December 31, 2000 to September 30, 2001, net total loans decreased slightly by \$141,000 or 0.09% as the Company has seen an increase in its levels of charge-offs. For the nine month period of 2001, the Company charged off net loans totaling \$2,521,000 compared to \$1,083,000 for the whole year of 2000. These results are attributed to the charge-off of a \$2,140,000 loan, which is in default. Premises and equipment decreased \$392,000 or 5.81% as the Company closed and sold a branch due to an acquisition related overlap. The Company also did not renew the lease agreement of its South DeKalb branch in June 2001 and accelerated the write-off of leasehold improvements at this location. The loans and deposits of the leased branch were consolidated into a nearby branch within the same community. Cash value of life insurance, a comprehensive compensation program for senior management and the directors of the Company, increased \$857,000 or 14.11% as a result of additional premiums paid during the first nine months of 2001.

INVESTMENT SECURITIES

The Company invests a portion of its assets in U.S. treasury bills and notes, U.S. government sponsored agency securities, mortgage backed bonds, as well as, some equity securities. Other investments includes Federal Home Loan Bank stock and Federal Reserve Bank stock. At September 30, 2001 and December 31, 2000, the Company's investment securities portfolio represented approximately 20.9% and 24.1% of total assets, respectively.

On January 1, 2001, the Company adopted SFAS No. 133 and transferred held to maturity securities with an amortized cost of \$2,199,000 and an estimated fair value of \$2,213,000 into the available for sale category. There was no income statement impact from the adoption of SFAS No. 133.

IMPAIRED LOANS

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

Loans are generally placed on nonaccrual status when the full and timely collection of principal or interest becomes uncertain or the loan becomes contractually in default for 90 days or more in either principal or interest unless the loan is well collateralized and in the process of collection. When a loan is placed on nonaccrual status, current period accrued and uncollected interest is charged to interest income on loans unless management feels the accrued interest is recoverable through the liquidation of collateral. Interest income, if any, on impaired loans is recognized on the cash basis.

At September 30, 2001, the recorded investment in loans that are considered to be impaired was approximately \$1,398,000, a decrease of \$3,971,000 from \$5,369,000 at December 31, 2000. The improvements in impaired loans reflect several pay-offs and the charge-off of a \$2,140,000 loan outstanding, which is in default. For the nine months ended September 30, 2001, the Company recognized approximately \$137,000 in interest income on these impaired loans on an accrual basis.

NONPERFORMING ASSETS

Nonperforming assets include nonperforming loans, real estate acquired through foreclosure and repossessed assets. Nonperforming loans consist of loans that are past due with respect to principal or interest more than 90 days or have been placed on nonaccrual status.

With the exception of the loans included within nonperforming assets in the table below, management is not aware of any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed which (1) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (2) represent any information on material credits which management is aware that causes management to have serious doubts as to the abilities of such borrowers to comply with the loan repayment terms.

Total nonperforming assets decreased by \$758,000 or 41.13% to \$1,085,000 at September 30, 2001 from \$1,843,000 at December 31, 2000. Nonaccrual loans decreased \$884,000 or 48.25% as management restructured the Company's loan portfolio by charging-off \$1,189,000 of loans during the third quarter because of poor payment performance and credit quality. As a result, the credit quality of the Company's loan portfolio improved. Nonperforming assets to loans, net of unearned income, discounts and real estate acquired through foreclosure and allowance for loan losses to nonperforming assets improved to 0.68% and 173.46%, respectively, compared to 1.15% and 145.04%, respectively, at December 31, 2000.

The table below presents a summary of the Company's nonperforming assets at September 30, 2001 and December 31, 2000.

	<u>2001</u>	<u>2000</u>
	(Amounts in thousands, except financial ratios)	
Nonperforming assets:		
Nonperforming loans:		
Nonaccrual loans	\$ 948	\$ 1,832
Past-due loans	<u>90</u>	<u>11</u>
Nonperforming loans	1,038	1,843
Real estate acquired through foreclosure	<u>47</u>	<u>-</u>
Total nonperforming assets	<u>\$ 1,085</u>	<u>\$ 1,843</u>
Ratios:		
Nonperforming loans to loans, net of unearned income and discount on loans	<u>0.65%</u>	<u>1.15%</u>
Nonperforming assets to loans, net of unearned income, discounts and real estate acquired through foreclosure	<u>0.68%</u>	<u>1.15%</u>
Nonperforming assets to total assets	<u>0.43%</u>	<u>0.69%</u>
Allowance for loan losses to nonperforming loans	<u>181.31%</u>	<u>145.04%</u>
Allowance for loan losses to nonperforming assets	<u>173.46%</u>	<u>145.04%</u>

Interest income on nonaccrual loans which would have been recorded for the nine months period ended September 30, 2001 totaled approximately \$82,000.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is used to absorb losses inherent in the loan portfolio. Credit exposures deemed uncorrectable are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The allowance for loan losses is based on management's evaluation of the loan portfolio under current economic conditions, historical loan loss experience, adequacy of collateral, and such other factors which, in management's judgment, deserve recognition in estimating loan losses. The Company's process for determining an appropriate allowance for loan losses includes management's judgment and use of estimates. A general reserve of 0.8% is applied to the portion of the loan portfolio that is nonclassified. A specific reserve is applied to all classified loans using a percentage formula related to the degree of impairment based on the standard industry and regulatory grading systems as follows: 2.5% for loans graded "Special Mention," 15% for loans graded "Substandard," 50% for loans graded "Doubtful," and 100% for loans graded "Loss."

The aggregate of these reserves plus specific allowances as needed is compared to the actual reserve to determine the adequacy of the allowance for loan losses. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. On a quarterly basis a comprehensive review of the adequacy of allowance for loan losses is performed. This assessment is made in the context of historical losses as well as existing economic conditions, performance trends within specific portfolio segments, and individual concentrations of credit.

Additions to the allowance for loan losses are made by monthly charges to the provision for loan losses. The level of provision for loan losses is established annually based on historical net charge-offs, projected growth of the loan portfolio, and economic conditions. Loans are charged against the allowance when, in the opinion of management, such loans are deemed to be uncollectable and subsequent recoveries are added to the allowance. During March 2000, the Company acquired loans with a principal balance of \$26.0 million at a discount of \$3.1 million from the Federal Deposit Insurance Corporation (the "FDIC"). Management evaluated the fair value of the loans acquired and determined, in accordance with its policy, \$1.4 million of the discount should be allocated to the allowance for loan losses. The remaining discount is being accreted over the estimated remaining lives of the purchased loans.

As of September 30, 2001, the allowance for loan losses was approximately \$1,882,000, representing 1.18% of total loans, net of unearned income and discounts compared to approximately \$2,673,000 or 1.67% of total loans, net of unearned income and discounts at December 31, 2000. During the third quarter of 2001, the Company increased its provision for loan losses by \$670,000 compared to \$90,000 for the same period in 2000. For the year, provisions for loan losses totals \$1,730,000 compared to \$240,000 in 2000 as the Company took steps to restructure its loan portfolio and deal with poor payment performance brought on by the downturn in the U. S. economy. Approximately \$2,140,000 of the \$3,161,000 total loans charged-off for the nine month period ended September 30, 2001 is attributed to a \$2.2 million loan in default.

The purchase of loans from the FDIC included a Shared-Loss Arrangement ("Arrangement") with the FDIC in relation to approximately \$9 million of the loans. The Arrangement provides for the reimbursement by the FDIC of 80% of the net charge-offs of these shared-loss loans plus reimbursable expenses for the first two years.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly in the metropolitan Atlanta area. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

A substantial portion of the Company's loan portfolio is secured by real estate in the metropolitan Atlanta market, including a concentration of church loans. The Company's church loans were approximately \$43.7 million at September 30, 2001 and \$41.7 million at December 31, 2000. Accordingly, the ultimate collectibility of the substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in the metropolitan Atlanta area.

The following table summarizes loans, changes in the allowance for loans losses arising from loans charged off, recoveries on loans previously charged off by loan category, and additions to the allowance which have been charged to operating expense as of and for the nine month period ended September 30, 2001 and year ended December 31, 2000, respectively.

ALLOWANCE FOR LOAN LOSSES

	2001	2000
	(Amounts in thousands, except financial ratios)	
Loans, net of unearned income and discounts	\$ 159,093	\$ 160,025
Average loans, net of unearned income, discounts and the allowance for loan losses	\$ 160,988	\$ 159,583
Allowance for loans losses at the beginning of period	\$ 2,673	\$ 1,612
Loans charged off:		
Commercial, financial, and agricultural	2,413	457
Real estate - loans	527	658
Installment loans to individuals	221	777
Total loans charged off	<u>3,161</u>	<u>1,892</u>
Recoveries of loans previously charged off:		
Commercial, financial, and agricultural	203	62
Real estate - loans	290	438
Installment loans to individuals	147	309
Total loans recovered	<u>640</u>	<u>809</u>
Net loans charged off	2,521	1,083
Allocation of discount on purchased loans	-	1,400
Additions to allowance for loan losses charged to operating expense	<u>1,730</u>	<u>744</u>
Allowance for loan losses at period end	<u>\$ 1,882</u>	<u>\$ 2,673</u>
Ratio of net loans charged off to average loans, net of unearned income and the allowance for loan losses	<u>1.57%</u>	<u>0.68%</u>
Allowance for loan losses to loans, net of unearned income	<u>1.18%</u>	<u>1.67%</u>

DEPOSITS

Deposits remain the Company's primary source of funding loan growth. September 30, 2001 total deposits decreased by \$15,363,000 or 6.65% to \$215,500,000 from December 31, 2000. Noninterest bearing deposits decreased by \$4,509,000 or 8.16%, while interest-bearing deposits decreased by \$10,854,000 or 6.18%. These decreases are primarily due to the Company's Corporate and Governmental customers that make significant deposits and withdrawals. December 31, 2000 interest bearing deposits included approximately \$10,000,000 in short-term deposits from a local government customer. These funds fluctuate monthly due to the operating needs of the customers.

OTHER BORROWED FUNDS

While the Company continues to emphasize funding earning asset growth through deposits, the Company has relied on other borrowings as a supplemental funding source. Other borrowings consist of Federal Home Loan Bank (the "FHLB") advances and short-term borrowings. The Company's bank subsidiary had outstanding advances from the FHLB of \$10,000,000 at September 30, 2001 and December 31, 2000. The outstanding advances bear interest at a fixed rate of 5.82% at September 30, 2001 and December 31, 2000, respectively. The advances are collateralized by a blanket lien on the Company's 1-4 family mortgage loans.

The Company has an unsecured note payable of \$440,000 at September 30, 2001, which is a decrease of \$200,000 from December 31, 2000. The note bears interest at prime minus 50 basis points.

At September 30, 2001, the Company's mortgage subsidiary had \$1,020,000 outstanding under a secured warehouse line of credit. The line of credit bears interest on a note by note basis based on the interest rate of the mortgage loans used as collateral and is payable monthly.

RESULTS OF OPERATIONS

Net Interest Income:

Net interest income represents the excess of income received on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income for the three month period ended September 30, 2001 decreased slightly by \$93,000 to \$2,740,000 compared to \$2,833,000 for the same period in 2000. The decrease is attributed to net interest margin compression as the Federal Reserve Bank continues to lower the discount rate to stimulate the economy. As a result, the Company's Bank subsidiary lowered its prime rate from a high of 9.50% at the start of the year to 6.00% at September 30, 2001. For the nine month period ended September 30, 2001, net interest income increased slightly by \$60,000 to \$8,493,000 compared to \$8,433,000 at September 30, 2000.

Noninterest income:

Noninterest income consists of revenues generated from a broad range of financial services and activities, including fee-based services, origination fees from the Mortgage Company, and profits and commissions earned through securities and insurance sales. In addition, gains and losses realized from the sale of investment portfolio securities and sales of assets are included in noninterest income. Noninterest income totaled \$1,734,000 for the third quarter of 2001, an overall decrease of \$243,000 or 12.29% compared to the three month period ended September 31, 2000. For the nine month period ended September 30, 2001, noninterest income increased \$407,000 or 6.44% compared to the same period a year ago.

Fee income from service charges on deposit accounts increased \$39,000 or 4.17% for the three month period ended September 30, 2001 compared to September 30, 2000. For the nine month period ended September 30, 2001, fee income increased \$208,000 compared to same period last year. A large component of the Company's service charges on deposit accounts is related to insufficient funds, returned check charges, and other customer service fees. Insufficient funds and returned check charges tends to inversely track the economic conditions of the Bank's service area, and the Atlanta metro economy has slowed considerably as the U. S. economy experience a slow down compared to last year.

Gain on sale of assets and investment securities totaled \$54,000 for the third quarter of 2001 and \$1,368,000 year to date. For the nine month period ended September 30, 2000, gain on sale of assets totaled \$745,000. There were no sales of securities during the nine month period of 2000. The gains on sale of assets in 2001 represent the sale of recently closed branch offices. These offices were closed due to their close proximity to other Company owned branches. In addition, gains were also realized from the sale of investment securities. The Company liquidated a portion of its equity investment portfolio in 2001 in anticipation of changes in market conditions and to offset the loan loss provision for a \$2.2 million loan, which went into default during 2001.

Origination fees from the Mortgage Company decreased \$127,000 or 21.49% in the third quarter compared to same period in 2000. Year to date, the origination fees have decreased \$492,000 or 26.05% compared to the same nine month period of last year. Company's management continues to review the financial performance of the mortgage subsidiary.

Other operating income decreased \$209,000 for the third quarter of 2001 compared to the third quarter of 2000. This decrease is primarily due to a \$297,000 BEA Grant from the CDIF Program the Company received during the third quarter of 2000. For the nine month period, other operating income increased slightly by \$68,000 to \$1,135,000 or 6.37% compared to \$1,067,000 in 2000. This increase is attributed to growth in various components of other operating income including: fees earned on two new products issued last year, debit cards, and investment services.

Noninterest expense:

Noninterest expense totaled \$4,599,000 for the three month period ended September 30, 2001, an increase of \$588,000 or 14.66% compared to the same period last year. For the nine month period ended September 30, 2001, noninterest expense increased \$780,000 compared to the same period last year. These increases are primarily attributed to the write-off of assets and legal costs incurred pursuing recoveries on charged-off loans during the third quarter.

Salaries and employee benefits expense for the third quarter was consistent with the third quarter of 2000, increasing by \$9,000. For the nine month period ended September 30, 2001, salaries and benefits increased slightly by \$88,000 to \$5,752,000 compare to the same period last year due to severance payments made to the former employees at the Company's mortgage subsidiary who left during a management restructuring.

Net occupancy and equipment expense increased by \$45,000 for the third quarter of 2001 compared to 2000. Year to date, net occupancy and equipment expense increased \$113,000 or 6.21% in 2001 to \$1,932,000 compared to 2000. The increases in net occupancy and equipment expense is attributable to the Company's expansion in new and existing markets, normal renovation of existing properties, and the technical and hardware upgrades needed to support increased business growth. The Company opened a new branch in September 2000 and November 2000, and is experiencing a full year of their operating cost in 2001. However, these costs are expected to decrease as the Company realizes savings for branch consolidations enacted during the second quarter of 2001.

Other operating expenses increased \$534,000 in the third quarter of 2001 compared to last year third quarter. This increase is primarily due to a \$247,000 write-off of miscellaneous assets

determined to have no future value. Also, impacting other operating expenses was \$180,000 in check losses and \$130,000 in legal costs associated with the legal action taken against a borrower in default of their loan agreement. For the first nine months of 2001, other operating expenses increased \$579,000 compared to the same period last year.

LIQUIDITY

Liquidity is the ability of the Company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Company's ability to meet the day-to-day cash flow requirements of its customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities they serve. Additionally, the parent holding company requires cash for various operating needs including dividends to shareholders; business combinations; capital injections to its subsidiaries; the servicing of debt; and the payment of general corporate expenses.

The primary source of liquidity for the parent holding company is dividends from the Subsidiary Bank. The amount of dividends paid by the Bank to the Company is limited by various banking regulatory agencies. The Georgia Department of Banking and Finance requires prior approval for a bank to pay dividends in excess of 50% of its prior year's earnings. The amount of dividends that could be paid by the Bank to the Company in 2001 without prior regulatory approval is approximately \$1,132,000 while continuing to meet the capital requirements for "well-capitalized" banks. Also, the Company has access to various capital markets. The Company does not anticipate any liquidity requirements in the near future that it will not be able to meet. On March 31, 2001, the Bank paid cash dividends totaling \$948,000 to the Company.

Asset and liability management functions not only serve to assure adequate liquidity in order to meet the needs of the Company's customers, but also to maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities so that the Company can earn a return that meets the investment requirements of its shareholders. Daily monitoring of the sources and uses of funds is necessary to maintain an acceptable cash position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments, maturities of investment securities and, to a lesser extent, sales of investment securities available for sale and trading account securities. Other short-term investments such as federal funds sold, securities purchased under agreements to resell, and maturing interest bearing deposits with other banks, are additional sources of liquidity funding.

The liability portion of the balance sheet provides liquidity through various customers' interest bearing and noninterest bearing deposit accounts. Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings are additional sources of liquidity, and basically, represent the Company's incremental borrowing capacity. These sources of liquidity are short-term in nature and are used as necessary to fund asset growth and meet short-term liquidity needs.

CAPITAL RESOURCES

Shareholders' equity increased by \$312,000 to \$22,309,000 for the nine month period ended September 30, 2001, primarily due to a net increase in retained earnings of \$391,000 and unrealized gains in the available for sale security portfolio of \$266,000. Offsetting these increases to shareholders' equity was a \$345,000 increase in outstanding treasury stock for the nine month period. In August 2001, the Company announced it intends to repurchase as much as 260,000 shares of its common stock under a new buy-back program. On March 31, 2001, the Company paid

a cash dividend of approximately \$375,000 to stockholders of record as of March 1, 2001. The annual dividend rate in 2001 was \$0.17 per common share, a 6.25% increase over 2000.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets, and Tier 1 capital to average assets. As of September 30, 2001, the Company's total and Tier 1 capital to risk weighted assets and Tier 1 to average assets were 15%, 13% and 8% respectively. As of September 30, 2001, the Company exceeded all capital adequacy requirements to which it is subject.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not aware of any material pending legal proceedings to which the Company or its subsidiary is a party or to which any of their property is subject.

ITEM 2. CHANGES IN SECURITIES

The Company amended and restated its Articles of Incorporations, in part, to increase the number of authority shares from 5,000,000 to 20,000,000 shares. As a result, the Company can issue 25,000,000 shares consisting of (i) 20,000,000 shares of Common Stock (the "Common Stock"), \$1.00 par value, and (ii) 5,000,000 shares of non-voting common stock (the "Non-Voting Common Stock"), \$1.00 par value. See Exhibit 1 – Amended and Restated Articles of Incorporation.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS BANCSHARES CORPORATION

Date: November 13, 2001 By: /s/ James E. Young
James E. Young
President and Chief Executive Officer

Date: November 13, 2001 By: /s/ Willard C. Lewis
Willard C. Lewis
Senior Executive Vice President and
Chief Operating Officer

Date: November 13, 2001 By: /s/ Samuel J. Cox
Samuel J. Cox
Senior Vice President and Chief Financial Officer