

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [*Fee required*] For fiscal year ended **December 31, 2001**

☐ Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 [*No fee required*] For the transition period from _____ to _____

Commission file number **0-14535**

Citizens Bancshares Corporation

(Name of Small Business Issuer in Its Charter)

Georgia

(State or Other Jurisdiction of
Incorporation or Organization)

58-1631302

(I.R.S. Employer
Identification No.)

75 Piedmont Avenue, N.E., Atlanta, Georgia

(Address of Principal Executive Offices)

30302

(Zip Code)

(404) 659-5959

(Issuer's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: **None.**

Securities registered pursuant to Section 12(g) of the Act:

20,000,000 Shares of Common Stock, \$1.00 par value

(Title of Class)

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 past 90 days. Yes ☒ No ☐

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

State issuer's revenues for its most recent fiscal year: **\$ 27,100,270**

State the aggregate market value of the voting stock held by non-affiliates of the registrant: \$13,859,848 as of March 4, 2002. Because there is not established public trading market for the registrant's Common Stock, the aggregate market value of the voting stock held by non-affiliates of the registrant is based upon the most recent trades of voting stock of which the registrant is aware.

Transitional Small Business Users Format: Yes ☐ No ☒

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2001 are incorporated by reference into Part II.

Portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held on May 24, 2002, are incorporated by reference into Part III.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

The Company

General

The Company was incorporated as a Georgia business corporation in 1972 and became a bank holding company by acquiring all of the common stock of Citizens Trust Bank (the “Bank”). The Company’s election to become a financial holding company was approved by the Federal Reserve Bank of Atlanta on December 20, 2000. The Company presently has two operating subsidiaries, the Bank and Citizens Trust Bank Mortgage Services, Inc. (“Mortgage Services”). The Company was organized to facilitate the Bank’s ability to serve its customers’ requirements for financial services. The holding company structure provides flexibility for expansion of the Company’s banking business through the possible acquisition of other financial service institutions and the provision of additional banking-related services that the traditional commercial bank may not provide under present laws. For example, banking regulations require that the Bank maintain a minimum ratio of capital to assets. In the event that the Bank’s growth is such that this minimum ratio is not maintained, the Company may borrow funds, subject to capital adequacy guidelines of the Federal Reserve, and contribute them to the capital of the Bank and otherwise raise capital in a manner that is unavailable to the Bank under existing banking regulations.

On January 30, 1998, the Company merged with First Southern Bancshares, Inc., whose banking subsidiary, First Southern Bank simultaneously merged into the Bank. The Company also acquired Mortgage Services as a result of the merger. Mortgage Services is a mortgage company licensed by the State of Georgia and has received lender approval from the Department of Housing and Urban Development, FHA, Fannie Mae and the Veterans Administration.

On March 10, 2000, the Company acquired certain assets and acquired all of the deposits of Mutual Federal Savings Bank, a failing minority bank, from the Federal Deposit Insurance Corporation. The Company may make additional acquisitions in the future in the event that such acquisitions are deemed to be in the best interests of the Company and its shareholders. Such acquisitions, if any, will be subject to certain regulatory approvals and requirements. See “Business - Bank Holding Company Regulations.”

Minority Control

A majority of the outstanding shares of the Company’s Common Stock is held by minority individuals. The Company thus views itself as having a social obligation to help members of the minority community. Accordingly, a majority of the Bank’s customers are from the minority communities.

The Bank

General

The Bank, a state bank headquartered in Atlanta, Georgia, was organized in 1921 and is a member of the Federal Reserve System.

The Bank's home office is located at 75 Piedmont Avenue, N.E., Atlanta, Georgia 30302. The Bank operates eleven branch offices located in Atlanta, Lithonia, Decatur, Stone Mountain and Columbus, Georgia. The Bank conducts a general commercial banking business that serves Fulton, DeKalb and Muscogee Counties, acts as an issuing agent for U.S. savings bonds, travelers checks and cashiers checks, and offers collection teller services. The Bank has no subsidiaries.

The Bank does not engage in any line of business in addition to normal commercial banking activities. The Bank does not engage in any operations in foreign countries nor is a material portion of the Bank's revenues derived from customers in foreign countries.

The Bank's Primary Service Area

The Bank's primary service area consists of Fulton and DeKalb Counties, along with certain portions of Rockdale County; through its branch in Columbus, the Bank also serves Muscogee County. The primary focus of the Bank is the small business and commercial/service firms in the area plus individuals and households who reside in or commute to the area. The majority of the Bank's customers are drawn from the described area.

Competition

The Bank must compete for both deposit and loan customers with other financial institutions with greater resources than are available to the Bank. Currently, there are numerous branches of regional and local banks, as well as other types of entities offering financial services, located in the Bank's market area.

Deposits

The Bank offers a wide range of commercial and consumer deposit accounts, including non-interest bearing checking accounts, money market checking accounts (consumer and commercial), negotiable order of withdrawal ("NOW") accounts, individual retirement accounts, time certificates of deposit, and regular savings accounts. The sources of deposits typically are residents and businesses and their employees within the Bank's market area, obtained through personal solicitation by the Bank's officers and directors, direct mail solicitation and advertisements published in the local media. The Bank pays competitive interest rates on time and savings deposits and has a service charge fee schedule competitive with other financial institutions in the Bank's market area, covering such matters as maintenance fees on checking accounts, per item processing fees on checking accounts, returned check charges and the like.

Loan Portfolio

The Bank engages in a full complement of lending activities, including consumer/installment loans, home equity lines of credit, construction loans and commercial loans, with particular emphasis on small business loans. The Bank believes that the origination of short-term fixed rate loans and loans tied to floating interest rates is the most desirable method of conducting its lending activities.

Consumer Loans

The Bank's consumer loans consist primarily of installment loans to individuals for personal, family and household purposes, including loans for automobiles, home improvements and

investments. This category of loans also includes loans secured by second mortgages on the residences of borrowers.

Commercial Lending

Commercial lending is directed principally toward businesses whose demands for funds fall within the Bank's legal lending limits and which are existing deposit customers of the Bank. This category of loans includes loans made to individual, partnership or corporate borrowers and obtained for a variety of business purposes.

Investments

As of December 31, 2001, investment securities comprised approximately 21.8% of the Company's assets, with loans (net of loan loss reserves) comprising approximately 53.1% of assets. The Bank invests primarily in obligations of the United States or obligations guaranteed as to principal and interest by the United States and other taxable securities.

Asset/Liability Management

It is the objective of the Bank to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Certain officers of the Bank are charged with the responsibility for developing and monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix. It is the overall philosophy of management to support asset growth primarily through growth of core deposits, which include deposits of all categories made by individuals, partnerships and corporations. Management of the Bank seeks to invest the largest portion of the Bank's assets in consumer/installment, commercial and construction loans.

The Bank's asset/liability mix is monitored on a daily basis with a report reflecting the interest-sensitive assets and interest-sensitive liabilities being prepared and presented to the Bank's Board of Directors on a monthly basis. The objective of this policy is to control interest-sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on the Bank's earnings.

Correspondent Banking

Correspondent banking involves the provision of services by one bank to another bank that cannot provide that service for itself from an economic or practical standpoint. The Bank purchases correspondent services offered by larger banks, including check collections, security safekeeping, investment services, wire transfer services, coin and currency supplies, overline and liquidity loan participation, and sales of loans to or participation with correspondent banks.

Employees

As of December 31, 2001, the Bank had 159 full-time employees. The Bank is not a party to any collective bargaining agreement and, in the opinion of management, the Bank enjoys excellent relations with its employees.

Supervision and Regulation

Both the Company and the Bank are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of their operations. These laws are generally intended to protect depositors and not shareholders. The following discussion describes the material elements of the regulatory framework that applies to us.

The Company

Since the Company owns all of the capital stock of the Bank, it is a bank holding company under the federal Bank Holding Company Act of 1956. As such, the Company elected the status of financial holding company pursuant to the Bank Holding Company Act, as amended by the Gramm-Leach-Bliley Act. As a result, the Company is primarily subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- Acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- Acquiring all or substantially all of the assets of any bank; or
- Merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or, substantially lessen competition or otherwise function as a restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below.

Under the Bank Holding Company Act, if adequately capitalized and adequately managed, the Company or any other bank holding company located in Georgia may purchase a bank located outside of Georgia. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Georgia may purchase a bank located inside Georgia. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. For example, Georgia law prohibits a bank holding company from acquiring control of a financial institution until the target financial institution has been incorporated for five years. Because the Bank has been incorporated for more than five years, this limitation does not apply to the Bank or the Company.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring “control” of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Securities Act of 1934; or
- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Permitted Activities. To qualify to become a financial holding company, all depository institution subsidiaries of a bank holding company must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least satisfactory. Additionally, a bank holding company must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. We filed such an election and became a financial holding company on December 20, 2000.

Generally, if the Company qualifies and elects to become a financial holding company, it may engage in activities that are financial in nature or incidental or complementary to financial activity. The Bank Holding Company Act expressly lists the following activities as financial in nature:

- Lending, trust and other banking activities;
- Insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- Providing financial, investment, or advisory services;
- Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- Underwriting, dealing in or making a market in securities;
- Other activities that the Federal Reserve may determine to be so closely related to banking or managing or controlling banks as to be a proper incident to managing or controlling banks;
- Foreign activities permitted outside of the United States if the Federal Reserve has determined them to be usual in connection with banking operations abroad;
- Merchant banking through securities or insurance affiliates; and

- Insurance company portfolio investments.

In addition, activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- Factoring accounts receivable;
- Making, acquiring, brokering or servicing loans and usual related activities;
- Leasing personal or real property;
- Operating a non-bank depository institution, such as a savings association;
- Trust company functions;
- Financial and investment advisory activities;
- Conducting discount securities brokerage activities;
- Underwriting and dealing in government obligations and money market instruments;
- Providing specified management consulting and counseling activities;
- Performing selected data processing services and support services;
- Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- Performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries.

Support of Subsidiary Institutions. Under Federal Reserve policy, the Company is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support may be required at times when, without this Federal Reserve policy, the Company might not be inclined to provide it. In addition, any capital loans made by the Company to the Bank will be repaid only after its deposits and various other obligations are repaid in full. In the unlikely event of the Company's bankruptcy, any commitment by it to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Bank

Since the Bank is a commercial bank chartered under the laws of the State of Georgia and is a Federal Reserve member bank, it is primarily subject to the supervision, examination and reporting

requirements of the Georgia Department of Banking and Finance and the Federal Reserve Bank of Atlanta. The Federal Reserve and the Georgia Department of Banking and Finance regularly examine the Bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Additionally, the Bank's deposits are insured by the FDIC to the maximum extent provided by law. The Bank is also subject to numerous state and federal statutes and regulations that affect its business, activities and operations.

Branching. Under current Georgia law, the Bank may open branch offices throughout Georgia with the prior approval of the Georgia Department of Banking and Finance. In addition, with prior regulatory approval, the Bank may acquire branches of existing banks located in Georgia. The Bank and any other national or state-chartered bank generally may branch across state lines by merging with banks in other states if allowed by the applicable states' laws. Georgia law, with limited exceptions, currently permits branching across state lines through interstate mergers.

Under the Federal Deposit Insurance Act, states may "opt-in" and allow out-of-state banks to branch into their state by establishing a new start-up branch in the state. Currently, Georgia has not opted-in to this provision. Therefore, interstate merger is the only method through which a bank located outside of Georgia may branch into Georgia. This provides a limited barrier of entry into the Georgia banking market, which protects us from an important segment of potential competition. However, because Georgia has elected not to opt-in, our ability to establish a new start-up branch in another state may be limited. Many states that have elected to opt-in have done so on a reciprocal basis, meaning that an out-of-state bank may establish a new start-up branch only if their home state has also elected to opt-in. Consequently, until Georgia changes its election, the only way we will be able to branch into states that have elected to opt-in on a reciprocal basis will be through interstate merger.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital levels for each of the other categories. At December 31, 2001, we qualified for the well-capitalized category.

Federal banking regulators are required to take some mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution in any of the undercapitalized categories is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets at the time it became undercapitalized or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration

plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

FDIC Insurance Assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions' that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. Assessments range from 0 to 27 cents per \$100 of deposits, depending on the institution's capital group and supervisory subgroup. In addition, the FDIC imposes assessments to help pay off the \$780 million in annual interest payments on the \$8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry. This assessment rate is adjusted quarterly and is set at 1.82 cents per \$100 of deposits for the first quarter of 2002.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve or the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank and the Company as a financial holding company. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Other Regulations. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. For example, under the Soldiers' and Sailors' Civil Relief Act of 1940, a lender is generally prohibited from charging an annual interest rate of more than 6% on any obligation for which the borrower is a person on active duty with the United States Military. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- The federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- The Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- The Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- The Soldiers' and Sailors' Relief Act of 1940, , governing the repayment terms of, and property rights underlying, secured obligations of persons in military service;
- The rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to:

- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- The Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Capital Adequacy

The Company and the Bank are required to comply with the capital adequacy standards established by the Federal Reserve, in the case of the Company, and the FDIC and Georgia Department of Banking and Finance, in the case of the Bank. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. The Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, qualifying noncumulative perpetual preferred stock, and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4% of risk-weighted assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and hybrid capital and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100% of Tier 1 Capital. At December 31, 2001 our ratio of total capital to risk-weighted assets was 14% and our ratio of Tier 1 Capital to risk-weighted assets was 13%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. At December 31, 2001, our consolidated leverage ratio was 7%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without reliance on intangible assets. The Federal Reserve considers the leverage ratio and other indicators of capital strength in evaluating proposals for expansion or new activities.

The Bank and the Company are also both subject to leverage capital guidelines issued by the Georgia Department of Banking and Finance, which provide for minimum ratios of Tier 1 capital to total assets.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. See “—Prompt Corrective Action.”

Payment of Dividends

The Company is a legal entity separate and distinct from the Bank. The principal source of the Company's cash flow, including cash flow to pay dividends to its shareholders, is dividends that the Bank pays to it. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders.

If, in the opinion of the federal banking regulator, the Bank were engaged in or about to engage in an unsafe or unsound practice, the federal banking regulator could require, after notice and a hearing, that it cease and desist from its practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See “—Prompt Corrective Action” above.

The Georgia Department of Banking and Finance also regulates the Bank's dividend payments and must approve dividend payments that would exceed 50% of the Bank's net income for the prior year. Our payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. At December 31, 2001, the amount the Bank could pay was approximately \$1,022,000 in dividends to the Company without prior regulatory approval.

Restrictions on Transactions with Affiliates

The Company and the Bank are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- loans or extensions of credit to affiliates;
- investment in affiliates;
- the purchase of assets from affiliates, except for real and personal property exempted by the Federal Reserve;
- loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- any guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

The Company and the Bank are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Privacy

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

Anti-Terrorism Legislation

In the wake of the tragic events of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account

relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps—

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions have 180 days from enactment (or until April 25, 2002) to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

Before the 180-day grace period expires, the Secretary of the Treasury will prescribe regulations that consider the extent to which these new requirements are commensurate with the size, location, and activities of financial institutions subject to the Act.

In addition, the USA PATRIOT Act authorizes the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

Our earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

SELECTED STATISTICAL INFORMATION

The following statistical information is provided for the Company for the years ended December 31, 2001, 2000 and 1999. The data is presented using daily average balances. The data should be read in conjunction with the financial statements appearing elsewhere in this Annual Report on Form 10-KSB.

Average Balance Sheets, Interest Rate, and Interest Differential

Condensed consolidated average balance sheets for the dates indicated are presented below (amounts in thousands):

	2001			2000			1999		
	Average	Interest	Yield/	Average	Interest	Yield/	Average	Interest	Yield/
	Balances	Income/ Expense	Rate	Balances	Income/ Expense	Rate	Balances	Income/ Expense	Rate
Assets:									
Interest-earning assets:									
Loans, net ^(a)	\$ 158,289	\$ 14,866	9.39%	\$ 159,583	\$ 15,505	9.72%	\$ 120,185	\$ 12,356	10.28%
Investment securities:									
Taxable ^(b)	41,092	2,445	5.95%	44,567	2,824	6.34%	44,768	2,774	6.20%
Nontaxable ^(c)	13,223	930	7.03%	9,642	700	7.26%	9,633	685	7.11%
Federal funds sold	937	31	3.31%	498	31	6.22%	1,184	65	5.49%
Interest bearing deposits	16,377	606	3.70%	5,527	360	6.51%	5,316	256	4.82%
Total interest-earning assets	229,918	\$ 18,878	8.21%	\$ 219,817	\$ 19,420	8.83%	\$ 181,086	\$ 16,136	8.91%
Other non-interest earning assets	30,165			29,455			28,317		
Total Assets	\$ 260,083			\$ 249,272			\$ 209,403		
Liabilities and stockholders' equity:									
Interest bearing liabilities:									
Deposits:									
Interest bearing demand and savings	\$ 77,071	\$ 2,171	2.82%	\$ 72,496	\$ 2,555	3.52%	\$ 62,876	\$ 1,653	2.63%
Time	92,232	4,606	4.99%	84,934	4,374	5.15%	69,796	3,498	5.01%
Other borrowings	11,340	691	6.09%	12,384	767	6.19%	4,827	319	6.61%
Total interest bearing liabilities	\$ 180,643	\$ 7,468	4.13%	\$ 169,814	\$ 7,696	4.53%	\$ 137,499	\$ 5,470	3.98%
Other non-interest bearing liabilities	57,092			59,452			53,437		
Stockholders' equity ^(d)	22,348			20,006			18,467		
Total liabilities and stockholders' equity	\$ 260,083			\$ 249,272			\$ 209,403		
Excess of interest-earning assets over Interest-bearing liabilities	\$ 49,275			\$ 50,003			\$ 43,587		
Ratio of interest-earning assets to Interest-bearing liabilities	127.28%			129.45%			131.70%		
Net interest income	\$ 11,410			\$ 11,724			\$ 10,666		
Net interest spread		4.08%			4.30%			4.93%	
Net interest yield on interest earning assets		4.96%			5.33%			5.89%	

(a) Average loans are shown net of unearned income, discounts and the allowance for loan losses. Nonperforming loans are also included.

(b) Includes dividend income.

(c) Reflects taxable equivalent adjustments using a tax rate of 34% to adjust interest on tax-exempt investment securities to a fully taxable basis, including the impact of the disallowed interest expense related to carrying such tax-exempt securities.

(d) Includes both voting and non-voting common stock.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY

Selected Statistical Information

Average Balance Sheets, Interest Rate, and Interest Differential (Continued)

The following table sets forth, for the year ended December 31, 2001, a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates (amounts in thousands):

	December 31, 2001	2000	Increase (decrease)	Due to Change in Volume	Rate ^(a)
Interest earned on:					
Loans, net ^(b)	\$ 14,866	\$ 15,505	\$ (639)	\$ (124)	\$ (515)
Taxable investment securities ^(c)	2,445	2,824	(379)	(188)	(191)
Tax-exempt investment securities ^(d)	930	700	230	256	(26)
Federal funds sold	31	31	-	2	(2)
Interest bearing deposits	606	360	246	554	(308)
Total interest income	<u>18,878</u>	<u>19,420</u>	<u>(542)</u>	<u>500</u>	<u>(1,042)</u>
Interest paid on:					
Savings & interest-bearing demand deposits	2,171	2,555	(384)	145	(529)
Time deposits	4,606	4,374	232	370	(138)
Other borrowed funds	691	767	(76)	(64)	(12)
Total interest expense	<u>7,468</u>	<u>7,696</u>	<u>(228)</u>	<u>451</u>	<u>(679)</u>
Net interest income	<u>\$ 11,410</u>	<u>\$ 11,724</u>	<u>\$ (314)</u>	<u>\$ 49</u>	<u>\$ (363)</u>

(a) The change in interest due to both rate and volume has been allocated proportionately to the volume and rate components.

(b) Included in interest earned on loans are fees of approximately \$535,000 in 2001 and \$488,000 in 2000. Includes income recognized on nonaccrual loans during 2001 and 2000.

(c) Includes dividend income.

(d) Reflects taxable equivalent adjustments using a tax rate of 34% to adjust interest on tax-exempt investment securities to a fully taxable basis, including the impact of the disallowed interest expense related to carrying such tax-exempt securities.

Average Balance Sheets, Interest Rate, and Interest Differential (Continued)

The following table sets forth, for the year ended December 31, 2000, a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates (amounts in thousands):

	December 31,		Increase	Due to Change in ^(a)	
	2000	1999	(decrease)	Volume	Rate
Interest earned on:					
Loans, net ^(b)	\$ 15,505	\$ 12,356	\$ 3,149	\$ 3,939	\$ (790)
Taxable investment securities ^(c)	2,824	2,774	50	(13)	63
Tax-exempt investment securities ^(d)	700	685	15	1	14
Federal funds sold	31	65	(34)	(40)	6
Interest bearing deposits	360	256	104	12	92
Total interest income	<u>19,420</u>	<u>16,136</u>	<u>3,284</u>	<u>3,899</u>	<u>(615)</u>
Interest paid on:					
Savings & interest-bearing deposits	2,555	1,653	902	296	606
Time deposits	4,374	3,498	876	769	107
Other borrowed funds	767	319	448	484	(36)
Total interest expense	<u>7,696</u>	<u>5,470</u>	<u>2,226</u>	<u>1,549</u>	<u>677</u>
Net interest income	<u>\$ 11,724</u>	<u>\$ 10,666</u>	<u>\$ 1,058</u>	<u>\$ 2,350</u>	<u>\$ (1,292)</u>

(a) The change in interest due to both rate and volume has been allocated proportionately to the volume and rate components.

(b) Included in interest earned on loans are fees of approximately \$488,000 in 2000 and \$701,000 in 1999. Includes interest income recognized on nonaccrual loans during 2000 and 1999.

(c) Includes dividend income.

(d) Reflects taxable equivalent adjustments using a tax rate of 34% to adjust interest on tax-exempt investment securities to a fully taxable basis, including the impact of the disallowed interest expense related to carrying such tax-exempt securities.

Investment Securities

The carrying values of investment securities - held to maturity and investment securities - available for sale at the indicated dates are presented below:

	December 31,		
	2001	2000	1999
Held to Maturity:	(amounts in thousands)		
U. S. Treasury and U. S. Government agencies	\$ -	\$ -	\$ 599
Mortgage-backed securities	-	2,199	3,243
State, county, and municipal securities	<u>2,676</u>	<u>3,232</u>	<u>3,382</u>
Totals	<u>\$ 2,676</u>	<u>\$ 5,431</u>	<u>\$ 7,224</u>

	December 31,		
	2001	2000	1999
Available for Sale:	(amounts in thousands)		
U. S. Treasury and U. S. Government agencies	\$ 20,118	\$ 49,563	\$ 37,971
Mortgage-backed securities	25,489	6,774	5,990
State, county, and municipal securities	14,485	668	126
Equity securities	<u>1,487</u>	<u>2,101</u>	<u>740</u>
Totals	<u>\$ 61,579</u>	<u>\$ 59,106</u>	<u>\$ 44,827</u>

The following table shows the contractual maturities of all investment securities at December 31, 2001 and the weighted average yields (on a fully taxable basis assuming a 34% tax rate) of such securities. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturing							
	Within 1 Year		Between 1 and 5 Years		Between 5 and 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and U.S. Government agencies	\$ -		\$ 6,061,651	5.16%	\$ 14,055,932	5.73%	\$ -	-
Mortgage-backed securities ^(a)	4,086	5.05%	1,007,690	5.45%	811,807	6.07%	23,665,080	4.79%
State, County, and Municipal Securities	300,000	6.61%	985,428	7.03%	5,968,604	6.91%	9,907,492	7.00%
Other equity securities ^(b)	-		-		-		1,487,284 ^(b)	
Totals	\$ 304,086		\$ 8,054,769		\$ 20,836,343		\$ 35,059,856	

^(a) Mortgage-backed securities have been categorized at their average life according to their projected speed. Principal repayments will occur at varying dates throughout the terms of the mortgages.

^(b) Other equity securities are primarily comprised of investments in preferred stock of the Fannie Mae Corporation and Federal Home Loan Mortgage Corporation. These investments have no specific maturity date or yield.

The Company did not have any investments with a single issuer which exceeded 10% of the Company's stockholders' equity at December 31, 2001, except for U.S. Treasury and U.S. Government agencies as shown in the table above.

Loans

The amount of loans outstanding at the indicated dates are shown in the following table according to the type of loan:

	December 31,				
	2001	2000	1999	1998	1997
Commercial, financial, and agricultural	\$ 49,335,968	\$ 48,462,227	\$ 45,766,378	\$ 37,506,002	\$ 39,571,125
Installment	8,154,154	9,606,215	11,935,202	10,763,727	7,994,240
Real estate - mortgage	78,290,855	68,275,993	48,197,864	48,244,210	49,116,102
Real estate - construction	10,817,161	11,640,371	6,840,121	5,297,879	8,338,238
Other	12,603,013	23,421,863	21,129,141	17,096,157	16,589,363
	<u>159,201,151</u>	<u>161,406,669</u>	<u>133,868,706</u>	<u>118,907,975</u>	<u>121,609,068</u>
Less: Net deferred loan fees	189,867	231,488	246,517	246,771	194,764
Allowance for loan losses	2,002,842	2,672,919	1,612,187	1,702,523	1,751,798
Discount on loans acquired from FDIC	<u>1,039,657</u>	<u>1,150,374</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ 155,968,785	\$ 157,351,888	\$ 132,010,002	\$ 116,958,681	\$ 119,662,506

During 2000, the Company securitized mortgage loans acquired from the failed institution. The net book value of the loans of \$998,025 was reclassified to investment securities available for sale as a result of the securitization.

The Company does not have any concentrations of loans exceeding 10% of total loans of which management is aware and which are not otherwise disclosed as a category of loans in the table above or in other sections of this Annual Report on Form 10-KSB. A substantial portion of the Company's loan portfolio is secured by real estate in metropolitan Atlanta.

The Company's loans to area churches were approximately \$43.8 million and \$41.7 million at December 31, 2001 and 2000, respectively, which are generally secured by real estate. The balance of such loans represents the accounting loss the Company could incur if any party to these loans failed completely to perform according to the terms of the contract and the collateral proved to be of no value.

The following table sets forth certain information at December 31, 2001, regarding the contractual maturities and interest rate sensitivity of certain categories of the Company's loans (amounts in thousands):

	Due after			
	One year or less	Between one and five years	After five years	Total
Commercial, financial, and agricultural	\$ 14,295	\$ 19,878	\$ 15,163	\$ 49,336
Installment	2,063	5,702	389	8,154
Real estate - mortgage	15,074	28,448	34,769	78,291
Real estate - construction	2,151	6,082	2,584	10,817
Other	7,597	3,891	1,115	12,603
	<u>\$ 41,180</u>	<u>\$ 64,001</u>	<u>\$ 54,020</u>	<u>\$ 159,201</u>

Loans due after one year:

Having predetermined interest rates	\$ 54,121
Having floating interest rates	63,900
Total	<u>\$ 118,021</u>

Actual repayments of loans may differ from the contractual maturities reflected above because borrowers may have the right to prepay obligations with or without prepayment penalties. Additionally, the refinancing of such loans or the potential delinquency of such loans could also cause differences between the contractual maturities reflected above and the actual repayments of such loans.

Nonperforming Assets

Nonperforming assets include nonperforming loans and real estate acquired through foreclosure. Nonperforming loans consist of loans which are past due with respect to principal or interest more than 90 days ("past-due loans") or have been placed on nonaccrual of interest status ("nonaccrual loans"). Generally, past-due loans and nonaccrual loans which are delinquent more than 90 days will be charged off against the Company's allowance for possible loan losses unless management determines that the loan has sufficient collateral to allow for the recovery of unpaid principal and interest and reasonable prospects for the resumption of principal and interest payments.

Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal or when loans become contractually in default for 90 days or more as to either interest or principal unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged-off against interest income on loans unless management believes that the accrued interest is recoverable through the liquidation of collateral.

At December 31, 2001 and 2000, the recorded investment in loans that are considered to be impaired was \$3,316,778 and \$5,369,066, respectively (of which \$1,760,868 and \$1,832,423 were nonaccrual loans at December 31, 2001 and 2000, respectively). The related allowance for loan losses for each of these loans was \$674,586 and \$1,058,821 at December 31, 2001 and 2000, respectively. The average investment in impaired loans during 2001 and 2000 was approximately \$3,116,000 and \$4,247,000, respectively. Interest income recognized on impaired loans was approximately \$556,000, \$260,000, and \$210,000 in 2001, 2000, and 1999. Interest income recognized on a cash basis was approximately \$48,000, \$85,000, and \$131,000 for 2001, 2000, and 1999, respectively.

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 material credits about which management is aware of any information which causes management to have serious doubts as to the abilities of such borrower to comply with the loan repayment terms.

Nonperforming loans increased to \$2,203,000 at December 31, 2001, from \$1,843,000 at December 31, 2000. Real estate acquired through foreclosure increased slightly to \$29,000 during 2001. Nonperforming assets represent 1.41% of loans net of unearned income, discounts and real estate acquired through foreclosure at December 31, 2001, as compared to 1.15% at December 31, 2000.

The table below presents a summary of the Company's nonperforming assets at December 31, as follows (amounts in thousands, except financial ratios):

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Nonperforming assets:					
Nonperforming loans:					
Nonaccrual loans	\$ 1,761	\$ 1,832	\$ 1,114	\$ 1,683	\$ 1,005
Past-due loans	<u>442</u>	<u>11</u>	<u>140</u>	<u>470</u>	<u>107</u>
Nonperforming loans	<u>2,203</u>	<u>1,843</u>	<u>1,254</u>	<u>2,153</u>	<u>1,112</u>
Real estate acquired through foreclosure	<u>29</u>	<u>-</u>	<u>318</u>	<u>147</u>	<u>1,075</u>
Total nonperforming assets	<u>\$ 2,232</u>	<u>\$ 1,843</u>	<u>\$ 1,572</u>	<u>\$ 2,300</u>	<u>\$ 2,187</u>
Ratios:					
Nonperforming loans to loans, net of unearned income and discount	<u>1.39%</u>	<u>1.15%</u>	<u>0.94%</u>	<u>1.82%</u>	<u>0.92%</u>
Nonperforming assets to loans, net of unearned income, discount and real estate acquired through foreclosure	<u>1.41%</u>	<u>1.15%</u>	<u>1.17%</u>	<u>1.95%</u>	<u>1.79%</u>
Nonperforming assets to total assets	<u>0.76%</u>	<u>0.69%</u>	<u>0.73%</u>	<u>1.11%</u>	<u>1.18%</u>
Allowance for loan losses to nonperforming loans	<u>90.92%</u>	<u>145.04%</u>	<u>128.56%</u>	<u>79.10%</u>	<u>157.55%</u>
Allowance for loan losses to nonperforming assets	<u>89.74%</u>	<u>145.04%</u>	<u>102.56%</u>	<u>74.04%</u>	<u>80.11%</u>

Interest income on nonaccrual loans, which would have been reported is summarized as follows:

	<u>December 31,</u>				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Interest at contracted rate	\$ 235,000	\$ 147,000	\$ 144,000	\$ 177,000	\$ 153,000
Interest recorded as income	<u>48,000</u>	<u>85,000</u>	<u>131,000</u>	<u>38,000</u>	<u>119,000</u>
Reduction of interest income	<u>\$ 187,000</u>	<u>\$ 62,000</u>	<u>\$ 13,000</u>	<u>\$ 139,000</u>	<u>\$ 34,000</u>

Allowance for Loan Losses

The following table summarizes loans at the end of each year and average loans during the year, changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off by loan category, and additions to the allowance which have been charged to expense:

	December 31,				
	2001	2000	1999	1998	1997
	(Amounts in thousands, except financial ratios)				
Loans, net of unearned income and discount	<u>\$ 157,972</u>	<u>\$ 160,026</u>	<u>\$ 133,622</u>	<u>\$ 118,062</u>	<u>\$ 121,414</u>
Average loans, net of unearned income, discounts and the allowance for loan losses	<u>\$ 158,289</u>	<u>\$ 159,583</u>	<u>\$ 120,185</u>	<u>\$ 118,484</u>	<u>\$ 115,634</u>
Allowance for loans losses at the beginning of year	\$ 2,673	\$ 1,612	\$ 1,703	\$ 1,752	\$ 1,806
Loans charged-off:					
Commercial, financial, and agricultural	2,510	457	104	85	199
Real estate - loans	570	658	240	145	39
Installment loans to individuals	<u>276</u>	<u>777</u>	<u>301</u>	<u>215</u>	<u>436</u>
Total loans charged off	<u>3,356</u>	<u>1,892</u>	<u>645</u>	<u>445</u>	<u>674</u>
Recoveries of loans previously charged off:					
Commercial, financial, and agricultural	359	62	2	69	86
Real estate - loans	343	438	139	21	84
Installment loans to individuals	<u>174</u>	<u>309</u>	<u>126</u>	<u>131</u>	<u>149</u>
Total loans recovered	<u>876</u>	<u>809</u>	<u>267</u>	<u>221</u>	<u>319</u>
Net loans charged-off	2,480	1,083	378	224	355
Allocation of discount on purchased loans	-	1,400	-	-	-
Additions to allowance for loan losses charged to expense	<u>1,810</u>	<u>744</u>	<u>287</u>	<u>175</u>	<u>301</u>
Allowance for loan losses at end of year	<u>\$ 2,003</u>	<u>\$ 2,673</u>	<u>\$ 1,612</u>	<u>\$ 1,703</u>	<u>\$ 1,752</u>
Ratio of net loans charged-off to average loans, net of unearned income, discounts and the allowance for loan losses	<u>1.57%</u>	<u>0.68%</u>	<u>0.31%</u>	<u>0.19%</u>	<u>0.31%</u>
Allowance for loan losses to loans, net of unearned income	<u>1.27%</u>	<u>1.67%</u>	<u>1.21%</u>	<u>1.44%</u>	<u>1.44%</u>

The allowance for loan losses is primarily available 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 Company provides for estimated losses on loans receivable when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. For loans that are pooled for purposes of determining necessary provisions, estimates are based on loan types, history of charge-offs, and other delinquency analyses. Therefore, the value used to determine the provision for losses is subject to the reasonableness of these estimates. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. 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.

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. For the year ended 2001, provisions for loan losses totaled \$1,810,000 compared to \$744,000 in 2000. In 2001, the Company took the necessary steps to restructure its loan portfolio and dealt with poor payment performance brought on by the downturn in the U. S. economy. Approximately \$2,140,000 of the \$3,356,000 in loans charged-off in 2001 is attributed to a \$2.2 million loan that was in default.

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. Accretion of the discount resulted in an adjustment to interest income of approximately \$193,000 during 2001.

The allowance for loan losses at year ended December 31, 2001 was approximately \$2,003,000, representing 1.27% of total loans, net of unearned income compared to approximately \$2,673,000 at December 31, 2000, which represented 1.67% of total loans, net of unearned income.

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 \$43.8 million and \$41.7 million at December 31, 2001 and 2000, respectively. 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.

Allocation of Allowance for Loan Losses

The Company has allocated the allowance for loan losses according to the amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within the categories of loans set forth in the table below. This allocation is based on management's evaluation of the loan portfolio under current economic conditions, past loan loss experience, adequacy and nature of collateral, and such other factors that, in the judgement of management, deserve recognition in estimating loan losses. Regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and the Company's valuation of real

estate acquired through foreclosure. Such agencies may require the Company to recognize additions to the allowance or adjustments to the valuations based on their judgements about information available to them at the time of their examination. Because the allocation is based on estimates and subjective judgement, it is not necessarily indicative of the specific amounts or loan categories in which charge-offs may occur. The amount of such components of the allowance for loan losses and the ratio of each loan category to total loans outstanding are presented below (amounts in thousands, except financial ratios):

	Commercial, financial, and agricultural	Installment and other	Real estate	Total
December 31, 2001 Allowance	\$ 966	\$ 318	\$ 719	\$ 2,003
Percent of loans in each category to total loans	31.0%	13.0%	56.0%	100.0%
December 31, 2000 Allowance	\$ 1,487	\$ 120	\$ 1,066	\$ 2,673
Percent of loans in each category to total loans	30.0%	20.5%	49.5%	100.0%
December 31, 1999 Allowance	\$ 333	\$ 260	\$ 1,019	\$ 1,612
Percent of loans in each category to total loans	34.2%	24.7%	41.1%	100.0%
December 31, 1998 Allowance	\$ 512	\$ 352	\$ 839	\$ 1,703
Percent of loans in each category to total loans	30.0%	20.7%	49.3%	100.0%
December 31, 1997 Allowance	\$ 500	\$ 412	\$ 840	\$ 1,752
Percent of loans in each category to total loans	28.5%	23.5%	48.0%	100.0%

Deposits

The average amount of and average rate paid on deposits by category for the last three years are presented below:

	Years Ended December 31,					
	2001		2000		1999	
	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest-bearing deposits	\$ 54,475,615	- %	\$ 56,257,053	- %	\$ 50,445,365	- %
Savings and interest-bearing demand deposits	77,071,261	2.82%	72,496,210	3.52%	62,876,120	2.63%
Time deposits	92,232,415	4.99%	84,933,979	5.15%	69,796,260	5.01%
Total average deposits	<u>\$ 223,779,291</u>	<u>3.03%</u>	<u>\$ 213,687,242</u>	<u>3.24%</u>	<u>\$ 183,117,745</u>	<u>2.81%</u>

The maturities of time deposits of \$100,000 or more are presented below in thousands as of December 31, 2001:

3 months or less	\$ 26,436
Over 3 months through 6 months	16,843
Over 6 months through 12 months	12,207
Over 12 months	<u>7,449</u>
Total	<u>\$ 62,935</u>

Short Term Borrowings

There were no short-term borrowings for which the average balance outstanding during the period was more than 30% of stockholders' equity for each of the years ended December 31, 2001, 2000, and 1999.

Interest Rate Sensitivity Management

Interest rate sensitivity management involves managing the potential impact of interest rate movements on net interest income within acceptable levels of risk. The Company seeks to accomplish this by structuring the balance sheet so that repricing opportunities exist for both assets and liabilities in equivalent amounts and time intervals. Imbalances in these repricing opportunities at any point in time constitute a financial institution's interest rate risk. The Company's ability to reprice assets and liabilities in the same dollar amounts and at the same time minimizes interest rate risk.

One method of measuring the impact of interest rate sensitivity is the cumulative gap analysis. The difference between interest rate sensitive assets and interest rate sensitive liabilities at various time intervals is referred to as the gap. The Company is liability sensitive on a short-term basis as reflected in the following table. Generally, a net liability sensitive position indicates that there would be a negative impact on net interest income in an increasing rate environment. However, interest rate sensitivity gap does not necessarily indicate the impact of general interest rate movements on the net interest margin, since all interest rates and yields do not adjust at the same velocity and the repricing of various categories of assets and liabilities is subject to competitive pressures and the needs of the Company's customers. In addition, various assets and liabilities indicated as repricing within the same period may in fact reprice at different times within such period and at different rates. For conservative purposes, the Company has included demand deposits such as NOW, money market and savings accounts in the three month category. However, the actual repricing of these accounts may lag beyond twelve months. The interest rate sensitivity gap is only a general indicator of potential effects of interest rate changes on net interest income.

The following table sets forth the distribution of the repricing of the Company's interest rate sensitive assets and interest rate sensitive liabilities over a one year horizon as of December 31, 2001.

	Cumulative amounts as of December 31, 2001				
	Maturing and repricing within				
	3	3 to 12	1 to 5	Over	
	Months	Months	Years	5 Years	Total
	(amounts in thousands, except ratios)				
Interest-sensitive assets:					
Investments	\$ 300	\$ 4	\$ 8,055	\$ 55,896	\$ 64,255
Loans	17,089	24,091	64,001	54,020	159,201
Federal funds sold	1,560	-	-	-	1,560
Interest-bearing deposits with other banks	37,258	-	-	-	37,258
Total interest-sensitive assets	<u>\$ 56,207</u>	<u>\$ 24,095</u>	<u>\$ 72,056</u>	<u>\$ 109,916</u>	<u>\$ 262,274</u>
Investment-sensitive liabilities:					
Deposits	\$ 143,289	\$ 46,400	\$ 16,189	\$ 122	\$ 206,000
Other borrowings	10,330	940	-	-	11,270
Total interest-sensitive liabilities	<u>\$ 153,619</u>	<u>\$ 47,340</u>	<u>\$ 16,189</u>	<u>\$ 122</u>	<u>\$ 217,270</u>
Interest-sensitivity gap	\$ (97,412)	\$ (23,245)	\$ 55,867	\$ 109,794	\$ 45,004
Cumulative interest-sensitivity gap to total interest-sensitivity assets	(37.14)%	(46.00)%	(24.70)%	17.16%	17.16%

ITEM 2. DESCRIPTION OF PROPERTIES

The Bank's main office building is located at 75 Piedmont Avenue, N.E., Atlanta, Georgia. The Bank also operates ten branch offices: the office located at 2727 Panola Road, Lithonia, Georgia, which is owned by the Bank; the office located at 2577 M. L. King, Jr., Drive NW, Atlanta, Georgia, which is owned by the Bank; the office located at 965 M. L. King Jr., Drive SW, Atlanta, Georgia, which is owned by the bank; the office located at 2840 East Point Street, East Point, Georgia, which is owned by the bank; the office located at 2592 S. Hairston Road, Decatur, Georgia, which is owned by the bank; the office located at Rockbridge Plaza, 5771 Rockbridge Road, Stone Mountain, Georgia, which is owned by the Bank; the office located in Kroger at 6055 Old National Highway, College Park, Georgia, which is leased (the lease expires in August 2004); the office located at 3705 Cascade Road, Atlanta, Georgia, which is owned by the bank; the office located at 6 Eleventh Street, Columbus, Georgia, which is leased (the lease expires in August 2003); and the office located at Stonecrest Mall, 2929 Turner Hill Road, Lithonia, Georgia, which is leased (the lease expires in February 2006).

Other than normal commercial lending activities of the Bank, the Company generally does not invest in real estate, interests in real estate, real estate mortgages, or securities of or interests in entities primarily engaged in real estate activities.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or of which any of its properties are subject; nor are there material proceedings known to the Company to be contemplated by any governmental authority; nor are there material proceedings known to the Company, pending or contemplated, in which any director, officer or affiliate or any principal

security holder of the Company, or any associate of any of the foregoing, is a party or has an interest adverse to the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Company's common stock, \$1.00 par value ("Common Stock"), is traded on the Nasdaq Bulletin Board, but there is limited trading. The following table sets forth high and low bid information for the Common Stock for each of the quarters in which trading has occurred since January 1, 2000. The prices set forth below reflect only information that has come to management's attention and do not include retail mark-ups, markdowns or commissions and may not represent actual transactions.

Quarter Ended:	High Bid	Low Bid
March 31, 2000	\$ 7.00	\$ 5.00
June 30, 2000	\$ 10.00	\$ 3.50
September 30, 2000	\$ 8.00	\$ 4.50
December 31, 2000	\$ 7.56	\$ 4.06
March 31, 2001	\$ 7.50	\$ 6.00
June 30, 2001	\$ 9.00	\$ 6.00
September 30, 2001	\$ 8.25	\$ 6.68
December 31, 2001	\$ 9.00	\$ 5.44

As of April 10, 2002, there were 1,444 holders of record of Common Stock.

The Company paid an annual cash dividend of \$0.17 per share in 2001 and \$0.16 per share in 2000. The Company's dividend policy in the future will depend on the Bank's earnings, capital requirements, financial condition, and other factors considered relevant by the Board of Directors of the Company. See "Description of Business – Bank Regulation."

The Company did not have any sales of unregistered securities during 1997. Effective January 30, 1998, the Company granted to President and Chief Executive Officer, James E. Young an option to purchase 17,500 shares of common stock. The securities underlying this grant are unregistered. On September 15, 1999, the Company sold 66,000 shares of common stock and 90,000 shares of non-voting stock to Fannie Mae, each at a price of \$9.50 per share, for an aggregate purchase price of \$1,482,000. The shares were unregistered at the time of the sale. However, on December 2, 1999, the SEC declared effective the Registration Statement on Form S-3 filed by the Company, registering the shares of common stock acquired by Fannie Mae.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This report may contain forward-looking statements which are subject to numerous assumptions, risks and uncertainties. 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 reasons 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 and gather deposits; 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 practices or requirements. The Company disclaims any obligations to update any such forward-looking statements.

Critical Accounting Policies

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which often require the judgment of management in the selection and application of certain accounting principles and methods. Management believes the quality and reasonableness of its most critical policies enable the fair presentation of its financial position and results of operations.

In response to the Securities and Exchange Commission's ("SEC") Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, the Company has identified the following as the most critical accounting policy upon which its financial status depends. The critical policy was determined by considering accounting policies that involve the most complex or subjective decisions or assessments. The Company's most critical accounting policy is related to the:

Allowance for Loan Losses — The Company provides for estimated losses on loans receivable when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. For loans that are pooled for purposes of determining necessary provisions, estimates are based on loan types, history of chargeoffs, and other delinquency analyses. Therefore, the value used to determine the provision for losses is subject to the reasonableness of these estimates. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. 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. 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.

A description of the Company's other accounting policies are summarized in Note 1, Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements.

The Company

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 the Bank and Mortgage Services, provides a full range of commercial banking and mortgage brokerage services to individuals and corporate customers in its two primary market areas, metropolitan Atlanta and Columbus. The Bank is a member of the Federal Reserve System and operates under a state charter. The Company serves its customers through eleven full-service bank branches and the mortgage company headquarters.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and related notes, and Selected Statistical Information, appearing in other sections of this Annual Report.

Summary

The following selected financial data for Citizens Bancshares Corporation and subsidiaries should be read in conjunction with the consolidated financial statements and related notes appearing in another section of this Annual Report.

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(amounts in thousands, except per shares data and financial ratios)				
Statement of income data:					
Net interest income	\$ 11,095	\$ 11,485	\$ 10,435	\$ 9,209	\$ 9,322
Provision for loan losses	\$ 1,810	\$ 744	\$ 287	\$ 175	\$ 301
Net income	\$ 1,290	\$ 2,101	\$ 1,881	\$ 1,766	\$ 317
Per share data:					
Net income	\$ 0.59	\$ 0.95	\$ 0.87	\$ 0.82	\$ 0.15
Book value	\$ 10.23	\$ 9.98	\$ 8.47	\$ 8.56	\$ 7.77
Cash dividends declared	\$ 0.17	\$ 0.16	\$ 0.15	\$ -	\$ 0.01
Balance sheet data:					
Loans, net of unearned income and discounts	\$ 157,972	\$ 160,026	\$ 133,622	\$ 118,661	\$ 121,414
Deposits	\$ 257,801	\$ 230,863	\$ 182,813	\$ 184,672	\$ 163,943
Notes payable	\$ 1,270	\$ 640	\$ 835	\$ 1,427	\$ 275
Advances from Federal Home Loan Bank	\$ 10,000	\$ 10,000	\$ 10,000	\$ -	\$ 1,576
Total assets	\$ 294,500	\$ 267,278	\$ 215,510	\$ 206,827	\$ 185,745
Average stockholders' equity	\$ 22,348	\$ 20,006	\$ 18,467	\$ 17,283	\$ 15,879
Average assets	\$ 260,083	\$ 249,272	\$ 209,403	\$ 194,260	\$ 189,361
Ratios:					
Net income to average assets	0.50%	0.84%	0.90%	0.91%	0.17%
Net income to average stockholders' equity	5.77%	10.50%	10.19%	10.22%	2.00%
Dividend payout ratio	29.00%	16.97%	17.26%	- %	8.73%
Average stockholders' equity to average assets	8.59%	8.03%	8.82%	8.90%	8.39%

For the year ended December 31, 2001, total interest income decreased by \$618,000 to \$18,563,000, a 3.22% decrease compared to last year's total interest income of \$19,182,000 in 2000, which represented an increase of 20.61% over 1999. For 2001, total interest expense on deposits and other borrowings decreased by \$229,000 to \$7,468,000, a 2.97% decrease over the Company's previous year results of \$7,697,000 in 2000, which was a 40.71% increase over 1999. These year to year fluctuations are due to changes in interest earning assets and interest bearing liabilities rates, volumes and mix that occurs throughout the year. Average interest earning assets for years ended December 31, 2001, 2000 and 1999 were \$229,918,000, \$219,817,000 and \$181,086,000, respectively. Average interest bearing liabilities outstanding for years ended December 31, 2001, 2000 and 1999 were \$180,643,000, \$169,814,000 and \$137,499,000, respectively. Also, the Company's total interest income and expense were affected by the Federal Reserve Bank adjusting the federal funds rate throughout 2001, 2000 and 1999.

In 2001, the Company reported net income of \$1,290,000, a decrease of 38.59% over the Company's previous net income of \$2,101,000 in 2000, which represented an 11.70% increase over 1999. The decrease in 2001 is primarily due to the \$1,066,000 increase in the provision for loan losses over last year's provision of \$744,000 in 2000, representing a 143.18% increase. The increase in the provision for loan losses was due to a \$2.2 million loan that was in default and charged-off in 2001. The provision for loan losses increased by \$457,000 in 2000 over 1999 or 159.37% for primarily the same reason.

As a result, net income per share was \$0.59, \$0.95, and \$0.87 in 2001, 2000 and 1999, respectively. The Company's net income to average stockholders' equity (ROE) was 5.77%, 10.50%, and 10.19% in 2001, 2000, 1999, respectively. Overall, the Company's capital position remains strong as the ratio of average stockholders' equity to average assets for 2001 was 8.59%, compared to 8.03% in 2000 and 8.82% in 1999.

Financial Condition

The Company's total assets in 2001 increased by \$27,222,000, or 10.19%, to \$294,500,000 over 2000's total assets of \$267,278,000. Much of the increase in the Company's total assets in 2001 was attributable to a \$1,510,000 increase in federal funds sold, a \$24,254,000 increase in interest bearing deposits with banks, and a \$2,100,000 increase in purchased certificates of deposits. This asset growth is predominately due to internal growth in the Company's target market area. The Company also has several corporate and governmental customers that make significant monthly deposits and withdrawals. These funds fluctuate monthly due to these entities operating needs.

Property held for sale decreased \$388,000 in 2001, compared with 2000. Due to the close proximity of the Company's main bank office, the Company sold a non-strategic branch recognizing a pretax gain of approximately \$121,000.

Premises and equipment decreased \$634,000 or 9.4% at December 31, 2001, from December 31, 2000. The decrease in premises and equipment is attributable to the sale of a Company's bank branch that was no longer in use for approximately \$346,000. The Company recognizing a pretax gain of approximately \$288,000 from this transaction. The Company 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. Also, in 2001, due to Cub Foods closing all their facilities located in the Atlanta

metropolitan area, the Company consolidated its Cub Foods supermarket branch to the Cascade branch. The closing of this branch resulted in a \$49,000 loss to the Company.

Cash value of life insurance, a comprehensive compensation program for senior management and the directors of the Company, increased approximately \$944,000 or 15.55% as a result of additional premiums paid during 2001 and earnings on such premiums.

Investment Portfolio

The composition of the Company's total investment securities portfolio reflects the Company's investment strategy of maximizing portfolio yields commensurate with risk and liquidity considerations. The primary objectives of the Company's investment strategy are to maintain an appropriate level of liquidity and provide a tool to assist in controlling the Company's interest rate sensitivity position while at the same time producing adequate levels of interest income.

As of December 31, 2001, investment securities comprised approximately 21.8% of the Bank's assets. The investment portfolio had a fair market value of \$64,323,000 and an amortized cost of \$64,480,000, for a total unrealized loss of \$157,000. As of December 31, 2000, investment securities comprised approximately 24.1% of the Bank's assets. The investment portfolio had a fair market value of \$64,603,000 and an amortized cost of \$63,893,000, representing an unrealized gain of \$710,000.

On January 1, 2001, the Company transferred held-to-maturity securities that had an amortized cost of \$2,198,000, and an estimated fair market value of \$2,213,000 into available-for-sale securities. This decision was due to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 is discussed in greater detail in the Management's Discussion and Analysis' section entitled "Recent Accounting Pronouncements and Other Accounting Issues". The Company's adoption of SFAS 133 in January, 2001, did not impact fiscal year 2001 net income.

Total investments classified as held-to-maturity as of December 31, 2001, were \$2,676,000, amortized cost (\$2,744,000 estimated fair value), compared to \$5,431,000, amortized cost (\$5,497,000 estimated fair value) as of December 31, 2000. Total investments classified as available-for-sale were \$61,579,000, at fair value (\$61,804,000 amortized cost) as of December 31, 2001, compared to \$59,106,000 at fair value (\$58,462,000 amortized cost) as of December 31, 2000.

The following table shows the contractual maturities of all investment securities at December 31, 2001 and the weighted average yields (on a fully taxable basis assuming a 34% tax rate) of such securities. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (amounts in thousands, except yields):

	Maturing							
	Within 1 Year		Between 1 and 5 Years		Between 5 and 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and U.S. Government agencies	\$ -		\$ 6,061,651	5.16%	\$ 14,055,932	5.73%	\$ -	-
Mortgage-backed securities ^(a)	4,086	5.05%	1,007,690	5.45%	811,807	6.07%	23,665,080	4.79%
State, County, and Municipal Securities	300,000	6.61%	985,428	7.03%	5,968,604	6.91%	9,907,492	7.00%
Other equity securities ^(b)	-		-		-		1,487,284 ^(b)	
Totals	\$ 304,086		\$ 8,054,769		\$ 20,836,343		\$ 35,059,856	

^(a) Mortgage-backed securities have been categorized at their average life according to their projected speed. Principal repayments will occur at varying dates throughout the terms of the mortgages.

^(b) Other equity securities are primarily comprised of investments in preferred stock of the Fannie Mae Corporation and Federal Home Loan Mortgage Corporation. These investments have no specific maturity date or yield.

Provision and 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 judgement and use of estimates.

Reviews of nonperforming loans, designed to identify potential charges to the reserve for possible loan losses, as well as to determine the adequacy of the reserve, are made on a continuous basis during the year. These reviews are conducted by the responsible lending officers, a separate independent review process, and the internal audit division. They consider such factors as trends in portfolio volume, quality, maturity and composition; industry concentrations; lending policies; new products; adequacy of collateral; historical loss experience; the status and amount of non performing and past-due loans; specific known risks; and current, as well as anticipated, specific and general economic factors that may affect certain borrowers. The conclusions are reviewed and approved by senior management. When a loan, or a portion thereof, is considered by management to be uncollectible, it is charged against the reserve. Any recoveries on loans previously charged off are added to the reserve.

The provision for loan losses is the charge against operating earnings that management determines is necessary to maintain the reserve for possible loan losses at an adequate level. The provision is determined based on growth of the loan portfolio, the amount of net loans charged-off, and management's estimation of potential future loan losses based on an evaluation of loan portfolio risks, adequacy of underlying collateral, and economic conditions. In 2001, the Company increased its provision for loan losses to \$1,810,000 from \$744,000 as was reported in 2000, or a total increase of \$1,066,000. Last year the Bank had a loan outstanding in the amount of \$2.2 million that was secured by the debtor's accounts receivable. The loan was in default and management, based on the available information, reserved a portion of this loan at December 31, 2000. During 2001, management determined the loan to be uncollectible and wrote off the entire balance. The Company also took steps to deal with poor payment performance brought on by the downturn in the U. S. economy.

At December 31, 2001, the Company's allowance for loan losses was approximately \$2,003,000 or 1.27% of loans, net of unearned income. During 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") (see Note 2 to the Consolidated Financial Statements). Management evaluated the fair value of the loans acquired and determined, in accordance with its policy, \$1.4 million of the discount was allocated to the allowance for loan losses. The remaining discount is being accreted over the estimated remaining lives of the purchased loans. Accretion of the discount resulted in an adjustment to interest income of approximately \$193,000 and \$187,000 during 2001 and 2000, respectively. Management believes that the reserve for possible loan losses was adequate to provide for potential loan losses at December 31, 2001 and 2000.

Deposits

Deposits remain the Company's primary source of funding loan growth. Total deposits at December 31, 2001 increased almost \$27,000,000, or 11.67%, to \$257,801,000 compared with \$230,863,000 at December 31, 2000, which was an increase of 26.28% increase over the total deposits of \$182,813,000 at December 31, 1999. For the last two years, the Company has realized a growth in total deposits of 41.0%.

Noninterest bearing deposits decreased by \$3,426,000, or 6.20% from December 31, 2000 to December 31, 2001, while interest-bearing deposits have increased by \$30,364,000 or 17.29% for this same period. These increases are primarily due to internal growth. The Company opened a new branch in 2001 in the new Stonecrest Mall and several new branches were opened in 2000. The Company also has Corporate and Governmental customers that have significant deposits and withdrawal activities that impact deposits balance significantly. For a discussion of deposits, maturities, and composition, refer to Note 6, Deposits, in the Notes to Consolidated Financial Statements.

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 December 31, 2001 and 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 approximately \$940,000 at December 31, 2001. The note bears interest at prime minus 50 basis points.

Also, at December 31, 2001, the Company's mortgage subsidiary had approximately \$331,000 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.

Disclosure about Contractual Obligations and Commitments

The following tables identify the Company's aggregated information about contractual obligations and commercial commitments at December 31, 2001.

Contractual Obligations	Payments Due by Period					Total
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years		
Warehouse lines of credit	\$ 330,574	\$ -	\$ -	\$ -	\$ 330,574	
FHLB advances	10,000,000	-	-	-	10,000,000	
Short-term debt	939,668	-	-	-	939,668	
Operating leases	440,811	798,391	472,356	-	1,711,558	
	<u>\$ 11,711,053</u>	<u>\$ 798,391</u>	<u>\$ 472,356</u>	<u>\$ -</u>	<u>\$ 12,981,800</u>	

Other Commercial Commitments	Amount of Commitment Expiration Per Period					Total
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years		
Commitments to extend credit	\$ 32,999,000	\$ -	\$ -	\$ -	\$ -	32,999,000
Standby letters of credit	1,192,000	-	-	-	-	1,192,000
	<u>\$ 34,191,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>34,191,000</u>

Liquidity Management

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 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 Company is dividends from its bank subsidiary. The Georgia Department of Banking and Finance regulates the dividend payments and must approve dividend payments that would exceed 50% of the Bank's net income for the prior year. The payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. At December 31, 2001, the amount the Bank could pay was approximately \$1,022,000 in dividends to the Company without prior regulatory approval. 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.

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

Stockholders' equity decreased by \$224,000 during 2001 primarily due to treasury stock purchased and dividends paid by the Company. The Company purchased 76,326 shares of treasury stock in 2001 at an average cost of \$7.53. Shareholders' equity increased by \$3,115,000 in 2000, primarily due to retained earnings and a decrease in accumulated other comprehensive loss.

Dividends of \$374,000 were paid on the Company's common stock in 2001, representing a 4.73% increase over 2000. The annual dividend rate in 2001 was \$0.17 per common share, a 6.25% increase over 2000. The dividend payout ratio was 29.00%, 16.97% and 17.26% for 2001, 2000 and 1999, respectively. The Company intends to continue a dividend payout ratio that is competitive in the banking industry while maintaining an adequate level of retained earnings to support continued growth. Subsequent to year end, the Company's Board of Directors approved \$0.16 per common share to be paid in 2002.

A strong capital position, which is vital to the continued profitability of the Company, also promotes depositor and investor confidence and provides a solid foundation for the future growth of the organization. The Company has satisfied its capital requirements principally through the retention of earnings. The ratio of average shareholders' equity as a percentage of total average assets is one measure used to determine capital strength. Overall, the Company's capital position remains strong as the ratio of average stockholders' equity to average assets for 2001 was 8.59% compared with 8.03% in 2000 and 8.82% in 1999.

In addition to the capital ratios mentioned above, banking industry regulators have defined minimum regulatory capital ratios that the Company and the Subsidiary Banks are required to maintain. These risk-based capital guidelines take into consideration risk factors, as defined by the regulators, associated with various categories of assets, both on and off of the balance sheet. The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, qualifying noncumulative perpetual preferred stock, and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4% of risk-weighted assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and hybrid capital and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100% of Tier 1 Capital. At December 31, 2001 our ratio of total capital to risk-weighted assets was 14% and our ratio of Tier 1 Capital to risk-weighted assets was 13%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally

are required to maintain a leverage ratio of at least 4%. At December 31, 2001, our leverage ratio was 7%.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the principal component of a financial institution's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as volume and mix changes in earning assets and interest bearing liabilities can materially impact net interest income. During 2001, 2000, and 1999 the Company's net interest income was affected by the Federal Reserve adjusting the federal funds target rate. During 2001, the federal funds target rate began at 6.5%, was adjusted downward 11 times, and ended the year at 1.75%. During both 2000 and 1999 the federal funds target was adjusted upward, beginning the years at 5.5% and 4.5% and ending the years at 6.5% and 5.5%, respectively.

Net interest income, on a fully tax-equivalent basis, accounted for 58.12% of net interest income and noninterest income before provision for loan losses in 2001, 58.90% in 2000 and 58.29% in 1999. The level of such income is influenced primarily by changes in volume and mix of earning assets, sources of noninterest income and sources of funding, market rates of interest, and income tax rates. The Company has an Asset/Liability Management Committee ("ALCO"), which is responsible for managing changes in net interest income and net worth resulting from changes in interest rates based on acceptable limits established by the Board of Directors. ALCO reviews economic conditions, interest rate forecasts, the demand for loans, the availability of deposits, current operating results, liquidity, capital, and interest rate exposure. Based on such reviews, the ALCO formulates a strategy that is intended to implement objectives set forth in the asset/liability management policy.

The following table represents the Company's net interest income on a tax-equivalent basis. Interest income on tax-exempt investment securities was adjusted to reflect the income on a tax-equivalent basis (considering the effect of the disallowed interest expense related to carrying these tax-exempt investment securities) using a nominal tax rate of 34% for 2001, 2000, 1999.

	December 31,		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(amounts in thousands)		
Interest Income	\$ 18,563	\$ 19,182	\$ 15,904
Tax-equivalent adjustment	<u>315</u>	<u>238</u>	<u>232</u>
Interest income, tax-equivalent basis	18,878	19,420	16,136
Interest expense	<u>(7,468)</u>	<u>(7,696)</u>	<u>(5,470)</u>
Net interest income, tax equivalent basis	11,410	11,724	10,666
Provision for loan losses	(1,810)	(744)	(287)
Noninterest income	8,537	8,420	7,864
Noninterest expense	<u>(16,324)</u>	<u>(16,297)</u>	<u>(15,474)</u>
Income before income taxes	<u>1,813</u>	<u>3,103</u>	<u>2,769</u>
Income tax expense	(208)	(764)	(656)
Tax-equivalent adjustment	<u>(315)</u>	<u>(238)</u>	<u>(232)</u>
Income tax expense, tax-equivalent basis	<u>(523)</u>	<u>(1,002)</u>	<u>(888)</u>
Net income	<u>\$ 1,290</u>	<u>\$ 2,101</u>	<u>\$ 1,881</u>

Net interest income on a tax-equivalent basis for 2001 decreased by \$313,000 or 2.67% compared to 2000 after increasing \$1,055,000 or 9.89% in 2000 as compared to 1999. As a result of rapid interest rates decreases during 2001 and competition from local area banks, the Company could not pass along the additional cost of funding the Bank's earning assets. The Company's net interest margin in 2001, 2000 and 1999 was 4.96%, 5.33% and 5.89%, respectively.

The 2001 yield on average earning assets decreased 62 basis point due to decreases in yields on most asset categories. The decrease in yields was primarily attributable to the purchase, origination and repricing of interest earning assets at lower rates, as evidenced by the decrease in the fed funds target rate during 2001. The \$10,101,000 increase in average earning assets was due primarily to a \$10,850,000 increase in interest bearing deposits with banks and \$106,000 million increase in investment securities partially offset by a \$1,294,000 decrease in net loans. Total interest expense decreased \$228,000 or 2.97% in 2001 due to a 6.37% increase in the average volume of interest bearing liabilities offset by a 40 basis point decrease in the rate paid.

Interest income increased \$3,278,000 or 20.61% in 2000 as a result of a 21.39% increase in the volume of average earning assets. The increase in the volume of average earning assets was primarily attributable to the acquisition loans with a principal balance of \$26.0 million at a discount of \$3.1 million from the Federal Deposit Insurance Corporation (the "FDIC"). Total interest expense increased \$2,226,000 or 40.69% in 2000 due to a 23.50% increase in the average volume of interest bearing liabilities and a 55 basis point increase in the rate paid on interest bearing liabilities. The increase in yields was primarily attributable to the repricing of interest bearing liabilities at higher rates, as evidenced by the increase in the federal funds target rate during 2000 and 1999 and market competition.

Noninterest Income

Noninterest income consists of revenues generated from a broad range of financial services and activities, including fee-based services, origination fees from 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 \$8,537,000 in 2001, an increase of 1.38% compared to the prior year, and \$8,421,000 in 2000, an increase of 7.08% from the amount reported in 1999.

Fee income from service charges on deposit accounts increased 7.71% in 2001, decreased 2.23% in 2000, and decreased 8.95% 1999. 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 tend to inversely track the economic conditions of the Bank's service area, and the Atlanta, Georgia economy had been exceptionally strong up to the September 11, 2001, incident which preceded the U.S. economic recession.

Gain on sale of assets were \$390,000 in 2001 and \$745,000 in 2000, representing the gain realized on the sales of non-strategic branches. There were no sales of assets in 1999. Gains on sales of securities were \$1,051,000, \$62,000, and \$7,000 in 2001, 2000 and 1999, respectively. The Company liquidated a portion of its equity investment portfolio in anticipation of changes in market conditions and to offset the increase in the provision for loan losses.

Origination fees from mortgage subsidiary decreased \$886,000 or 36.99% in 2001 and decreased \$903,000 or 27.38% in 2000 after increasing \$148,000 in 1999. Over the past two years, the mortgage subsidiary has been unfavorably impacted by decreased loan volume. Management has implemented corrective actions to improve the mortgage subsidiary's financial performance by reducing excess staff and overhead cost to a level to match loan volume. On December 28, 2001 the Company realigned its mortgage subsidiary to become a department of the bank subsidiary.

Other operating income increased \$96,000 or 5.7% in 2001, compared to an increase of \$740,000 in 2000 and an increase of \$105,000 in 1999. The most significant component of the increase in other operating income in 2001 and 2000 were \$396,000 and \$297,000, respectively, received from the U.S. Department of the Treasury through its Bank Enterprise Award Program. This program provides community banks the opportunity to increase loans and financial services within the inner city.

Noninterest Expense

Noninterest expense totaled \$16,324,000 in 2001, an increase of 0.17% from the prior year, and \$16,297,000 in 2000, an increase of 5.32% from that reported in 1999. The increases in 2001, 2000 and 1999, in large part, were due to the addition of several new branches opened during 2001, 2000 and 1999.

Salaries and employee benefits expense decreased 1.7% for 2001 compared to an increase of 1.17% for 2000 and an increase of 2.34% in 1999. The 2001 decrease in salaries and employee benefits was primarily due to decreased employee headcount as the Company consolidated several under performing branches to control overhead expenses. The increase in 2000 for salary and employee benefits was the result of increased number of employees, increased insurance costs, and regular merit increases due to an increase in the number of branches.

Net occupancy and equipment expense decreased 2.68% in 2001, increased 3.84% in 2000, and decreased 4.00% in 1999. The decrease in net occupancy and equipment expense in 2001 was due primarily to the closure of three branches during the fiscal year. Increase in net occupancy and equipment expense in 2000 was primarily 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.

Other operating expenses increased 3.65% in 2001 to \$6,363,000 after increasing 11.64% in 2000 to \$6.1 million, and 10.01% to \$5.5 million in 1999. The increases were primarily attributable to a combination of data processing costs, marketing expenses associated the opening of new branches and new products, the integration of loans and deposits purchased from the FDIC, and other expenses related to normal business operation.

Income Taxes

Income tax expense decreased by \$556,000, or 72.83%, to \$207,000 for the year ended December 31, 2001. The effective tax rate as a percentage of pretax income was 13.8% in 2001, 26.7% in 2000, and 25.9% in 1999. The statutory federal rate was 34 percent during 2001, 2000, and 1999. The decrease in the effective tax rate in 2001 was primarily due to the increase in tax-exempt interest income, net of disallowed interest expense earned on obligations of qualifying state and municipal authorities as a percentage of income before income taxes. For further information concerning the provision for income taxes, refer to Note 8, Income Taxes, in the Notes to Consolidated Financial Statements.

Quarterly Financial Data (Unaudited)

The following table presents the Company's quarterly financial data for the years ended December 31, 2001 and 2000 (amounts in thousands):

	First Quarter 2001	Second Quarter 2001	Third Quarter 2001	Fourth Quarter 2001	First Quarter 2000	Second Quarter 2000	Third Quarter 2000	Fourth Quarter 2000
Interest Income	\$ 4,940	\$ 4,815	\$ 4,517	\$ 4,291	\$ 4,255	\$ 4,890	\$ 4,870	\$ 5,167
Interest expense	2,052	1,950	1,777	1,689	1,574	1,971	2,037	2,115
Net Interest income	2,888	2,865	2,740	2,602	2,681	2,919	2,833	3,052
Provision for loans loss	120	940	670	80	60	90	90	504
Non-interest income	2,366	2,631	1,734	1,806	1,687	2,659	1,977	2,098
Non-interest expense	4,051	3,934	4,599	3,740	3,736	4,056	4,011	4,494
Income before income taxes	1,083	622	(795)	588	572	1,432	709	152
Income tax expense (benefit)	325	143	(324)	64	152	413	200	(1)
Net income (loss)	\$ 758	\$ 479	\$ (471)	\$ 524	\$ 420	\$ 1,019	\$ 509	\$ 153
Basic and diluted net income (loss) per common and common equivalent share outstanding	\$ 0.35	\$ 0.22	\$ (0.22)	\$ 0.24	\$ 0.19	\$ 0.46	\$ 0.23	\$ 0.07

Recent Accounting Pronouncements and Other Accounting Issues

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.

On January 1, 2001, the Company adopted SFAS No. 133 and transferred held to maturity securities with an amortized cost of \$2,198,000 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.

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 the 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 FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and establishes criteria for recognizing intangible assets. The adoption of SFAS No. 141 did not have a material impact on the Company's financial statements. SFAS No. 142 addresses the financial accounting and reporting standards for the acquisition of intangible assets outside a business combination and for goodwill and other intangible assets subsequent to their acquisition. SFAS 142 changes the accounting for goodwill and other intangible assets. Upon adoption, goodwill will no longer be amortized and will be subject to an annual impairment test. The adoption of SFAS No. 142 did not have a material impact on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses accounting for and reporting of the impairment or disposal of long-lived assets. The Company adopted the provisions of SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 is not expected to have a significant impact on the Company's results of operations, financial position, or cash flows; however, SFAS No. 144 may modify the presentation of the operating results from abandoned or disposed businesses and the Company's consolidated statement of operations in the future.

Impact of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of a bank are monetary in nature. Management believes the impact of inflation on financial results depends upon the Company's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance.

Interest rates do not necessarily move in the same direction, or at the same magnitude, as the prices of other goods and services. Management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Firstly, the Company has adopted an asset/liability management program to monitor the Company's interest rate sensitivity and to ensure the Company is competitive in the loans and deposit market. Secondly, the Company performs periodic reviews to ensure its banking services and products are priced appropriately. Various information shown elsewhere in the Company's 10-KSB and in the Notes to Consolidated Financial Statements, should be considered in the understanding of how well the Company is positioned to react to changing interest rates and inflationary trends.

ITEM 8. FINANCIAL STATEMENTS

The following financial statements are included in Exhibit 13.1, and are hereby incorporated herein by reference:

Report of Independent Certified Public Accountants

Financial Statements

Consolidated Balance Sheets as of December 31, 2001, 2000 and 1999

Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The responses to this Item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2002 under the headings, "Election of Directors – Director Nominees" at pages 3 through 5 "Principal Officers" at pages 6 and 7, "Beneficial Ownership of Common Stock" at pages 9 through 11, and "Compliance With Section 16(a) of the Securities Exchange Act of 1934" at page 11, and are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The responses to this Item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2002 under the heading, "Executive Compensation" at pages 7 and 8, and are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The responses to this item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2002 under the heading, "Beneficial Ownership of Common Stock" at pages 9 through 11, and are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The responses to this Item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 24, 2002 under the heading "Certain Transactions" at page 8, and are incorporated herein by reference.

ITEM 14. EXHIBITS, LISTS AND REPORTS ON FORM 8-K

(a) Exhibits

<u>Exhibit Number</u>	<u>Exhibit</u>
3.1	The Articles of Incorporation. ⁽¹⁾
3.2	Bylaws. ⁽²⁾
4.1	Instruments Defining the Rights of Security Holders. ⁽³⁾

<u>Exhibit Number</u>	<u>Exhibit</u>
10.1*	Employment Agreement dated January 30, 1998 between James E. Young and the Company. ⁽⁴⁾
10.2*	Citizens Bancshares Corporation Employee Stock Purchase Plan. ⁽⁴⁾
10.3*	Citizens Bancshares Corporation 1999 Incentive Stock Option Plan. ⁽⁴⁾
10.4	Stock Purchase Agreement by and between Citizens Bancshares Corporation and Fannie Mae dated September 10, 1999 and amended as of October 12, 1999. ⁽⁵⁾
10.5	Stock Exchange Agreement between Citizens Bancshares Corporation and Fannie Mae dated November 10, 1999 Incentive Stock Option Plan. ⁽⁵⁾
13.1	The Company's 2001 Annual Report to Shareholders. Except with respect to those portions specifically incorporated by reference into this Report, the Company's 2000 Annual Report to Shareholders is not deemed to be filed as part of this Report.
21.1	List of subsidiaries of the Company. ⁽⁴⁾
23.1	Consent of Deloitte & Touche LLP
24.1	Power of attorney. See the signature pages to this Report.

* Compensatory plan or arrangement.

- ⁽¹⁾ Incorporated by reference to exhibit of same number in the Company's Form 10-QSB for the quarter ending September 30, 2001.
- ⁽²⁾ Incorporated by reference to exhibit of same number in the Company's Registration Statement on Form 10, File No. 0-14535.
- ⁽³⁾ See the Articles of Incorporation of the Company at Exhibit 3.1 hereto and the Bylaws of the Company at Exhibit 3.2 hereto.
- ⁽⁴⁾ Incorporated by reference to exhibit of same number in the Company's 2000 Form 10-KSB.
- ⁽⁵⁾ Incorporated by reference to exhibit of same number in the Company's Registration Statement on Form S-3, File No. 333-91003.

(b) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS BANCSHARES CORPORATION

By: /s/ James E. Young
James E. Young
President

Date: April 11, 2002

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears on the signature page to this Report constitutes and appoints James E. Young and Willard C. Lewis and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits hereto, and other documents in connection herewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Herman J. Russell</u> Herman J. Russell	Chairman of the Board	<u>April 11, 2002</u>
<u>/s/ Gregory T. Baranco</u> Gregory T. Baranco	Director	<u>April 11, 2002</u>
<u>/s/ Thomas E. Boland</u> Thomas E. Boland	Director	<u>April 11, 2002</u>
<u>/s/ Bernard H. Bronner</u> Bernard H. Bronner	Director	<u>April 11, 2002</u>
<u>/s/ Robert L. Brown</u> Robert L. Brown	Director	<u>April 11, 2002</u>
<u>/s/ Johnnie L. Clark</u> Johnnie L. Clark	Director	<u>April 11, 2002</u>
<u>/s/ William Cleveland</u> William Cleveland	Director	<u>April 11, 2002</u>
<u>/s/ C. David Moody</u> C. David Moody	Director	<u>April 11, 2002</u>
<u>/s/ Lynn Pattillo</u> Lynn Pattillo	Director	<u>April 11, 2002</u>
<u>/s/ Ray Robinson</u> Ray Robinson	Director	<u>April 11, 2002</u>
<u>/s/ H. Jerome Russell</u> H. Jerome Russell	Director	<u>April 11, 2002</u>
<u>/s/ R. K. Sehgal</u> R.K. Sehgal	Director	<u>April 11, 2002</u>
<u>/s/ James E. Young</u> James E. Young	Director President*	<u>April 11, 2002</u>
<u>/s/ Samuel J. Cox</u> Samuel J. Cox	Senior Vice President and Chief Financial Officer**	<u>April 11, 2002</u>

* Principal executive officer

** Principal Accounting and
Financial Officer