Citizens Bancshares Corporation

2022 Annual Report

The picture on the front is of Myrtle Beach, SC and was selected to honor our Merger with Sandhills Bank which was completed in July 2022. Our expanded coastal region now includes five branches in Horry County and three in Georgetown County.

To Our Shareholders and Friends:

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

The past year was transformational for The Citizens Bank (“TCB”). We closed on the acquisition of Sandhills Bank based in North Myrtle Beach and expanded our footprint with four additional locations along the South Carolina coast. More importantly, we added a talented group of Bankers to the TCB family. We now offer the TCB brand of Banking at twenty-two full-service branches, two deposit only locations, and one loan production office. This acquisition enabled the Company to cross over the $1 billion threshold in total assets.

As interest rates began rising in 2022, the power of a diversified low-cost deposit portfolio provided an opportunity to capitalize on our network of stable core deposits. Our low loan-to-deposit ratio put us in a position of strength in this rapidly rising rate environment. Our investment discipline over the last few years provided us with ample liquidity and enabled us to deploy a portion of our excess liquidity at much higher yields, improving our net interest margin and overall profitability.

Recently, we saw the failure of two large banks and the disruption created around the fear of contagion. These Banks failed because of liquidity concerns fueled, to some degree, by social media, combined with the ease and speed with which customers can move money electronically. Both failed banks had a high concentration of uninsured deposits, defined as customers with balances exceeding the FDIC insurance level of $250,000 per qualifying relationship. In addition, both banks invested heavily in bonds with exceptionally low yields and long duration risk. As rates increased, the value of long-term bonds decreased adding more liquidity challenges and potential capital erosion.

TCB has maintained a very conservative model to avoid deposit or loan concentration and duration risk. We are not a Wall Street bank; we are a community bank doing business on Main Street primarily in small communities with a very diversified customer base that we built over the last 80 years. The majority of our depositors are insured with less than $250,000 per relationship. The Federal Reserve’s consistent and rapid rate increases have had a detrimental effect on many banks; however, it has been a competitive advantage for TCB. Because of our investment discipline we have been able to increase earnings without extending duration risk, while minimizing the negative effects on capital.

In 2022 we also began the second phase of the transition from paper-based new customer onboarding processes to electronic onboarding processes. These investments in technology are beginning to produce results and are expected to continue to increase productivity and reduce costs. The final phase of this initiative will offer additional convenience to our customers by allowing them to provide electronic signatures remotely, and we expect this to be completed during 2023.

I am proud of our employees’ performance in 2022. It was our fifth consecutive year of record net earnings while maintaining pristine credit quality and a conservative approach to enterprise risk management. Our success in 2022 was a direct result of our employees’ commitment, hard work, and dedication to our customers, the Company, and to each other.

Net income for the year was $7.4 Million, compared to $6.5 Million in 2021. Basic earnings per share for 2022 were $3.74 as compared to $3.31 in 2021. The increase in net income was primarily driven by an increase in interest income. As a result of this performance, we were able to increase our annual dividend to $0.38 per share during the fourth quarter of 2022.

Total assets of the Company as of 12/31/2022 were $1 Billion compared to $795 Million at year-end 2021. Total deposits were $897 Million compared to $688 Million at year-end 2021. Loans net of unearned income and the allowance for loan losses totaled $512 Million as of 12/31/2022, compared to $376 Million at year-end 2021. The Company's capital position remained strong as of 12/31/2022, with Shareholders' Equity of $67 Million as compared to $72 Million at year-end 2021. Book Value Per Share was $33.79 as of 12/31/2022, as compared to $36.81 at year-end 2021. Recent declines in Shareholder's Equity and Book Value are due to the decline in the fair value of investment securities available-for-sale and is indicative of current market forces impacting most banks in the face of rapidly rising rates. Our investment securities continue to be highly rated; we believe this decline is temporary, and fully anticipate that our investment securities will perform as originally expected.

The loan portfolio continued to perform exceptionally well in 2022, indicative of our strong credit culture. The loan loss reserve totaled $4.9 Million or 0.95% of total loans and is considered more than adequate in our current credit cycle. Nonperforming loans to total loans as of 12/31/2022 were 0.21% compared to 0.15% at the end of 2021. Net loan charge-offs to average total loans were 0.005% at year-end 2022, compared to 0.03% at year-end 2021.

We will be challenged in 2023 with rising deposit cost from competitors with high loan to deposit ratios forced to pay new market rates in order to maintain funding for their loan portfolio. We expect our mortgage lending business to continue to be soft in 2023 due to higher mortgage rates. We are also facing the probability of a recession resulting from the Fed's actions to slow down inflation. However, with rising rates, we can strategically deploy more of our excess liquidity into loans and liquid investments with a much higher yield than what the market would allow over the last few years.

Economy of scale becomes more important every year to maintain profitability while investing in technology and human talent as margins continue to compress and the cost of doing business increases. We are committed to maximizing shareholder value. At the same time, we must stay focused on soundness, profitability, and growth, and in that order. We will continue to pursue growth both organically and through acquisitions. However, we will not sacrifice long term soundness or profitability for the sake of growth.

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

Sincerely,

T Bouchette

Thomas Bouchette
President
Chief Operating Officer

Citizens Bancshares Corporation

Report on Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Contents

elliott davis

Independent Auditor's Report

The Board of Directors
Citizens Bancshares Corporation
Olanta, South Carolina

Opinion

We have audited the consolidated financial statements of Citizens Bancshares Corporation and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Elliott Davis, LLC

Columbia, South Carolina
April 7, 2023

Citizens Bancshares Corporation

Consolidated Balance Sheets

As of December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 67,794	$ 45,029
Interest-bearing deposits	136,773	233,346
Federal funds sold	1,251	-
Total cash and cash equivalents	205,818	278,375
Other interest-bearing balances	6,750	3,500
Investment securities:		
Securities available-for-sale	200,942	95,713
Nonmarketable equity securities	1,138	1,339
Total investment securities	202,080	97,052
Loans held for sale	-	1,300
Loans receivable	516,675	381,105
Less allowance for loan losses	(4,898)	(4,869)
Loans, net	511,777	376,236
Premises, furniture and equipment, net	30,588	17,207
Bank owned life insurance	8,499	7,888
Cash surrender value of life insurance	2,010	1,837
Goodwill	18,483	6,551
Core deposit intangible	6,008	1,435
Accrued interest receivable	2,755	1,680
Other real estate owned	609	320
Deferred tax asset	3,381	190
Lease right of use asset	395	473
Other assets	1,017	960
Total assets	$ 1,000,170	$ 795,004
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 272,078	$ 216,486
Interest-bearing transaction accounts	208,988	155,197
Savings	312,884	231,957
Certificates of deposit $250,000 and over	19,090	9,718
Other time deposits	83,923	74,203
Total deposits	896,963	687,561
Advances from the Federal Home Loan Bank	-	24,000
Subordinated debenture	24,453	-
Junior subordinated debenture	3,093	3,045
Securities sold under agreement to repurchase	5,838	5,567
Accrued interest payable	372	66
Lease liability	396	473
Other liabilities	2,530	1,823
Total liabilities	933,645	722,535
Commitments and contingencies (Notes 12, 20, and 22)		
Shareholders' equity:		
Common stock, $1.00 par value; 2,500,000 shares authorized; 2,387,821 shares issued and outstanding at December 31, 2022 and 2021	2,388	2,388
Capital surplus	7,993	7,993
Retained earnings	77,211	70,603
Treasury stock, at cost (419,066 shares at December 31, 2022 and 2021, respectively)	(8,100)	(8,100)
Accumulated other comprehensive loss	(12,967)	(415)
Total shareholders' equity	66,525	72,469
Total liabilities and shareholders' equity	$ 1,000,170	$ 795,004

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Income

For the years ended December 31, 2022 and 2021

(Dollars in thousands, except per share amounts)

	2022	2021
Interest income		
Loans, including fees	$ 22,743	$ 21,426
Investment securities:		
Taxable	2,807	837
Tax-exempt	667	598
Nonmarketable equity securities	48	52
Federal funds sold	556	76
Deposits with other banks	4,056	319
Total interest income	30,877	23,308
Interest expense		
Deposits	927	551
Advances from the Federal Home Loan Bank	142	344
Other borrowings	1,161	-
Other interest expense	35	15
Total interest expense	2,265	910
Net interest income	28,612	22,398
Provision for loan losses	240	165
Net interest income after provision for loan losses	28,372	22,233
Noninterest income		
Service charges on deposit accounts	2,573	2,214
Residential mortgage origination fees	403	830
Income from cash surrender value of life insurance	192	186
Gain on sale of securities available-for-sale	-	15
Gain on sale of other real estate owned	83	93
Brokerage fees	544	416
Credit card and interchange fees	2,476	2,219
Other operating income	730	720
Total noninterest income	7,001	6,693
Noninterest expense		
Salaries and employee benefits	12,676	11,205
Net occupancy	2,035	1,902
Furniture and equipment	1,220	1,029
FDIC assessments	315	209
Communications	199	171
Net cost of other real estate owned	11	30
Impairment on premises and equipment	-	100
Merger related expenses	2,587	-
Other operating expense	7,069	6,108
Total noninterest expense	26,112	20,754
Income before income taxes	9,261	8,172
Income tax expense	1,905	1,648
Net income	$ 7,356	$ 6,524
Earnings per share		
Basic	$ 3.74	$ 3.31
Diluted	$ 3.60	$ 3.19

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
Net income	$ 7,356	$ 6,524
Other comprehensive loss		
Unrealized holding losses arising during the period	(15,888)	(1,802)
Tax effect	3,336	379
Realized losses on securities available-for-sale	-	(15)
Tax effect	-	3
Other comprehensive loss, net of tax	(12,552)	(1,435)
Comprehensive (loss) income	$ (5,196)	$ 5,089

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2022 and 2021

(Dollars in thousands, except shares)

	Common Stock					Accumulated Other Comprehensive	
	Shares	Amount	Capital Surplus	Retained Earnings	Treasury Stock	Income (Loss)	Total
Balance, December 31, 2020	2,387,821	$ 2,388	$ 7,993	$ 64,789	$ (8,100)	$ 1,020	$ 68,090
Net income	-	-	-	6,524	-	-	6,524
Other comprehensive loss, net of taxes	-	-	-	-	-	(1,435)	(1,435)
Cash dividends paid ($0.36 per share)	-	-	-	(710)	-	-	(710)
Balance, December 31, 2021	2,387,821	2,388	7,993	70,603	(8,100)	(415)	72,469
Net income	-	-	-	7,356	-	-	7,356
Other comprehensive loss, net of taxes	-	-	-	-	-	(12,552)	(12,552)
Cash dividends paid ($0.38 per share)	-	-	-	(748)	-	-	(748)
Balance, December 31, 2022	2,387,821	$ 2,388	$ 7,993	$ 77,211	$ (8,100)	$ (12,967)	$ 66,525

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
Operating activities		
Net income	$ 7,356	$ 6,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	240	165
Depreciation	1,150	959
Amortization of intangible assets	457	204
Write-down of other real estate owned	-	25
Impairment on premises and equipment	-	100
Gain on sale of loans held for sale	(403)	(830)
Proceeds of loans held for sale, net	1,703	2,426
Gain on sale of securities available-for-sale	-	(15)
Discount accretion on purchased loans	1,057	525
Gain on sales and disposals of other real estate owned, net	(83)	(93)
Discount accretion and premium amortization, net	300	527
Amortization of junior subordinated debt	30	49
(Decrease) increase in accrued interest receivable	(708)	235
Increase (decrease) in accrued interest payable	284	(40)
Increase in BOLI and cash surrender value of life insurance	(784)	(357)
Decrease in other assets	1,443	4,267
Decrease in other liabilities	(517)	(291)
Net cash provided by operating activities	11,525	14,380
Investing activities		
Purchases of securities available-for-sale	(133,298)	(37,740)
Proceeds from sale of securities available-for-sale	-	2,897
Net change in nonmarketable equity securities	900	298
Net change in loans made to customers	(387)	21,426
Net change in interest-bearing investments	(3,250)	4,250
Purchases of premises and equipment, net	(670)	(1,654)
Proceeds from disposal of premises and equipment	77	350
Proceeds from sales of other real estate owned	350	571
Proceeds from calls, maturities and paydowns of securities available-for-sale	11,895	22,744
Cash received from acquisitions	72,103	-
Cash paid for acquisition	(19,999)	-
Net cash (used in) provided by investing activities	(72,279)	13,142
Financing activities		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	9,398	112,421
Net decrease in certificates of deposit and other time deposits	(12,678)	(5,537)
Net change in securities sold under agreement to repurchase	271	(160)
Cash dividends paid	(747)	(710)
Proceeds from issuance of subordinated debt, net of issuance costs	24,453	-
Repayment of subordinated debt	(4,250)	-
Repayment of note payable	(4,250)	-
Repayment of Federal Home Loan Bank advances	(24,000)	-
Net cash (used in) provided by financing activities	(11,803)	106,014
Net (decrease) increase in cash and cash equivalents	(72,557)	133,536
Cash and cash equivalents, beginning of year	278,375	144,839
Cash and cash equivalents, end of year	$ 205,818	$ 278,375
Non-cash investing and financing activities		
Unrealized loss on securities available-for-sale, net of tax	$ (12,552)	$ (1,435)
Transfer of loans to other real estate owned	$ 609	$ 524
Asset acquired, net of cash	$ 162,176	$ -
Liabilities assumed	$ 222,446	$ -
Goodwill	$ 11,945	$ -
Cash paid during the year for:		
Interest	$ 1,406	$ 950
Income taxes	$ 1,940	$ 568

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of presentation and consolidation:

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

Management's estimates:

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

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

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

Concentrations of credit risk:

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

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

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

Investment securities:

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

Nonmarketable equity securities:

Nonmarketable equity securities include the Company’s investment in the stock of the Federal Home Loan Bank, an investment in the stock of Community Bankers Bank Financial Corporation, and investment in the stock of Pacific Coast Bankers’ Bancshares, and investments in two other entities. These securities are carried at cost because they have no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize any borrowings. Dividends received on nonmarketable equity securities are included as a separate component in interest income.

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable:

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

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

Acquired loans:

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

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

Note 1. Summary of Significant Accounting Policies, Continued

<u>*Allowance for loan losses:*</u>

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Loans held for sale:

Loans held for sale consist of residential mortgage loans the Company originates for sale to secondary market investors. They are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Fees collected in conjunction with origination activities are deferred as part of the cost basis of the loan and recognized when the loan is sold. Gains or losses on sales are recognized when the loans are sold and are determined as the difference between the sales price and the carrying value of the loans. The Company had loans held for sale of $0 and $1,300,000 as of December 31, 2022 and 2021, respectively. The Company recognized gains on loans sold during 2022 and 2021 totaling $402,740 and $830,208. respectively.

The Company issues rate lock commitments to borrowers based on prices quoted by secondary market investors. When rates are locked with borrowers, a sales commitment is immediately entered (on a best-efforts basis or mandatory delivery basis) at a specified price with a secondary market investor. Accordingly, any potential liabilities associated with rate lock commitments are offset by sales commitments to investors.

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

Premises, furniture and equipment:

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

Other real estate owned:

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

Note 1. Summary of Significant Accounting Policies, Continued

Goodwill and other intangible assets:

Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Fair values are subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. Other intangible assets represent premiums paid for acquisitions of core deposits (core deposit intangibles). Core deposit intangibles are being amortized over a 10-year period based on amortization schedules prepared by an outside consultant. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of identifiable intangible assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. The Company’s evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. No impairment losses have been recorded as a result of the Company's analysis during the years ended December 31, 2022 and 2021.

Retirement and deferred compensation plans:

The Bank has a profit sharing plan covering all full-time employees with at least twelve months of service and who have obtained the age of eighteen. Normal retirement age is the first of the month following attainment of age sixty-five or ten years of participation if later. Early retirement can be obtained at age fifty-five upon ten years of participation. Expenses charged to earnings for the years ended December 31, 2022 and 2021 totaled $500,000 and $450,000, respectively, and are included within salaries and employee benefits.

Income and expense recognition and revenue from contracts with customers:

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Income and expense recognition and revenue from contracts with customers, continued:

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

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

Gains/Losses on OREO Sales: Gains/losses on the sale of OREO are included in non-interest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Income taxes:

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

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Business combinations:

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

Note 1. Summary of Significant Accounting Policies, Continued

Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $580,295 and $438,736, were included in other operating expenses for 2022 and 2021, respectively.

Comprehensive income:

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

Per-share amounts:

Basic earnings per-share is computed by dividing net income by the weighted-average number of shares outstanding for the period. Diluted earnings per-share is similar to the computation of basic earnings per-share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of options outstanding under the Company's stock option plan are reflected in diluted earnings per-share by the application of the treasury stock method. See Note 12.

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

Statement of cash flows:

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

Off-balance-sheet financial instruments:

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

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

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

In October 2021, the FASB amended the Business Combinations topic in the Accounting Standards Codification to require entities to apply guidance in the Revenue topic to recognize and measure contract assets and contract liabilities acquired in a business combination. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments are applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2022, the FASB (“Financial Accounting Standards Board”) issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2022, the FASB issued amendments to extend the period of time preparers can use the reference rate reform relief guidance under Accounting Standards Codification (ASC) Topic 848 from December 31, 2022, to December 31, 2024, to address the fact that all London Interbank Offered Rate (LIBOR) tenors were not discontinued as of December 31, 2021, and some tenors will be published until June 2023. The amendments are effective immediately for all entities and applied prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

The Company is finalizing its evaluation of the adoption of ASU No. 2016-13 “Financial Instruments – Credit Losses (Topic 326). The new guidance, which was further modified by subsequent related updates, replaces the incurred loss impairment framework in current GAAP with a current expected credit loss (“CECL”) framework, which requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost and some off-balance sheet credit exposures. The Company to date has selected the third-party vendor of choice for implementation, sourced and tested required data from the Company’s loan systems, determined appropriate segmentations of the portfolio, developed processes for calculating and supporting qualitative factors, and has performed parallel runs of the model. The Company will initially apply the impact of the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, which, for the Company, is January 1, 2023. Future adjustments to credit loss expectations will be recorded through the income statement as charges or credits to earnings. The Company has substantially completed its CECL model and continues to make enhancements to its estimate of expected credit losses as of January 1, 2022, based on internal analysis and consultations with third-party vendors.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

The Company currently estimates the allowance for loan losses will increase by approximately $1 million to $1.25 million and is inclusive of the gross up of the allowance for expected credit losses on purchased credit deteriorated assets. In addition, the Company expects to recognize a liability for unfunded commitments of approximately $0.85 million upon adoption. The Company will finalize the adoption during the first quarter of 2023.

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

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

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

Reclassifications:

Certain captions and amounts in the 2021 consolidated financial statements were reclassified to conform with the 2022 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

Note 2. Mergers and Acquisitions

On July 1, 2022, the Company acquired 100% of the outstanding shares of Sandhills Holding Company ("Sandhills"), the bank holding company for South Carolina state-chartered Sandhills Bank ("SHB"), headquartered in North Myrtle Beach, South Carolina. Upon consummation of the acquisition, Sandhills was merged with and into the Company, with the Company as the surviving entity in the merger; concurrently SHB was merged with and into The Citizens Bank ("TCB"). In connection with the acquisition, the Company acquired $234.3 million of assets and assumed $222.4 million of liabilities.

The total purchase price was $20 million based on 1,248,382 shares of Sandhills common stock, agreed to be purchased at $16.02 per share. Acquisition- related costs of $2,587,212 were recorded for the year ended December 31, 2022.

Note 2. Mergers and Acquisitions, Continued

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

The following table presents the assets acquired and liabilities assumed as of July 1, 2022, as recorded by the Company on the acquisition date and initial fair value adjustments:

	Carrying Value Acquired	Purchase Adjustments	As Recorded by Sandhills
Assets			
Cash and cash equivalents	$ 39,127	$ -	$ 39,127
Investment securities	33,675	-	33,675
Loans receivable	142,423	(5,803)	136,620
Allowance for loan losses	(1,432)	1,432	-
Premises, furniture and equipment, net	12,912	1,024	13,936
Core deposit intangible	6	5,024	5,030
Goodwill	682	(682)	-
Other real estate owned	452	(62)	390
Deferred tax assets	3,955	(3,955)	-
Other assets	1,761	(39)	1,722
Total assets	$ 233,561	$ (3,061)	$ 230,500
Liabilities			
Deposits	$ 212,555	$ 127	$ 212,682
Subordinated debt	4,250	18	4,268
Subordinated debt – issuance cost	(83)	83	-
Note payable	4,250	-	4,250
Other liabilities	1,246	-	1,246
Total liabilities	$ 222,218	$ 228	$ 222,446
Net assets acquired over liabilities assumed			8,054
Consideration			
Cash exchanged for stock			$ 19,999
Total fair value of consideration transferred			19,999
Goodwill			$ 11,945

Note 2. Mergers and Acquisitions, Continued

Acquired loans held for investment had gross contractual amounts receivable of $190,697. At the acquisition date, the Company's current estimate of expected cash flows to be collected was $163,634. Acquired loans were evaluated to determine if they were purchased credit-impaired ("PCI"). PCI loans are loans with evidence of deterioration of credit quality since origination for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable. PCI loans that were identified as part of this business combination amounted to $9.5 million and was comprised of 24 loans. The determination of the basis of PCI loans is presented in the table below:

(Dollars in thousands)	July 1, 2022
Contractual principal and interest at acquisition	$ 13,505
Non-accretable difference	2,364
Expected cash flows at acquisition	11,141
Accretable yield	1,624
Basis in PCI loans at acquisition – estimated fair value	$ 9,517

The following table relates to acquired Sandhills purchased non-impaired loans and provides the contractually required payments, fair value, and estimate of contractual cash flows not expected to be collected at the acquisition date:

(Dollars in thousands)	July 1, 2022
Contractual required payments	$ 177,192
Fair value of acquired loans at acquisition date	127,076
Contractual cash flows not expected to be collected	24,700

Note 3. Restrictions on Cash and Due From Banks

The Company has been required by regulation to maintain an average cash reserve balance based on a percentage of deposits. There were no such requirements as of December 31, 2022 and 2021.

Note 4. Investment Securities

Securities available-for-sale consisted of the following:

	December 31, 2022			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 50,498	$ 2	$ (5,295)	$ 45,205
Mortgage backed securities	90,576	175	(6,660)	84,091
Obligations of state and local governments	43,111	69	(3,683)	39,497
U.S. Treasuries	33,170	99	(1,120)	32,149
	$ 217,355	$ 345	$ (16,758)	$ 200,942

	December 31, 2021			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 24,500	$ 1	$ (610)	$ 23,891
Mortgage backed securities	31,431	100	(631)	30,900
Obligations of state and local governments	34,380	669	(132)	34,917
U.S. Treasuries	5,927	78	-	6,005
	$ 96,238	$ 848	$ (1,373)	$ 95,713

The following is a summary of maturities of securities available-for-sale as of December 31, 2022. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Securities Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 3,302	$ 3,234
Due after one year but within five years	38,327	37,361
Due after five years but within ten years	66,530	59,830
Due after ten years	109,197	100,517
Total	$ 217,356	$ 200,942

Note 4. Investment Securities, Continued

At December 31, 2022 and 2021, investment securities with a book value of $59,440,621 and $45,486,759 and a market value of $53,726,942 and $46,567,184, respectively, were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

During 2022, no investment securities classified as available-for-sale were sold. During 2021, investment securities classified as available-for-sale, with a book value of $2,882,149, were sold for a gain of approximately $15,000.

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021.

Securities Available-for-Sale

	December 31, 2022					
	Less Than Twelve Months		Twelve Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises	$ 20,012	$ 986	$ 19,191	$ 4,309	$ 39,203	$ 5,295
Mortgage backed securities	54,001	2,556	20,612	4,104	74,613	6,660
Obligations of state and local governments	22,591	963	11,822	2,720	34,413	3,683
U.S. Treasuries	24,809	741	2,564	379	27,373	1,120
	$ 121,413	$ 5,246	$ 54,189	$ 11,512	$ 175,602	$ 16,758

	December 31, 2021					
	Less Than Twelve Months		Twelve Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises	$ 17,092	$ 408	$ 5,798	$ 202	$ 22,890	$ 610
Mortgage backed securities	17,796	411	7,452	220	25,248	631
Obligations of state and local governments	6,554	68	1,711	63	8,265	131
U.S. Treasuries	-	-	-	-	-	-
	$ 41,442	$ 887	$ 14,961	$ 485	$ 56,403	$ 1,372

Note 4. Investment Securities, Continued

Securities classified as available-for-sale are recorded at fair market value. Of the securities in an unrealized loss position at December 31, 2022, eighty-nine individual securities were in a continuous loss position for twelve months or more. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of its amortized cost.

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

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

Note 5. Loans Receivable

Loans receivable consisted of the following at December 31, 2022 and 2021:

(Dollars in thousands)	2022	2021
Real estate - construction	$ 47,555	$ 33,377
Real estate - commercial	161,734	121,814
Real estate - residential	216,265	151,379
Commercial and industrial	47,200	42,558
Consumer and other	36,593	31,977
Purchased Credit Impaired (PCI) loans:		
Real estate - construction	869	-
Real estate - commercial	3,931	-
Real estate - residential	2,249	-
Commercial and industrial	302	-
Consumer and other	-	-
Total gross loans	516,698	381,105
Less allowance for loan losses	(4,898)	(4,869)
Loans, net	$ 511,800	$ 376,236

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2022:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 443	$ 1,318	$ 2,232	$ 697	$ 179	$ 4,869
Charge-offs	-	-	(9)	(10)	(839)	(858)
Recoveries	3	1	-	17	626	647
Provisions	5	16	21	4	194	240
Ending balance	$ 451	$ 1,335	$ 2,244	$ 708	$ 160	$ 4,898
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 451	$ 1,335	$ 2,244	$ 708	$ 160	$ 4,898
Loans receivable:						
Loans receivable	$ 47,555	$ 161,734	$ 216,265	$ 47,200	$ 36,593	$ 509,347
Purchase credit impaired loans	869	3,931	2,249	302	-	7,351
Ending balance - total	$ 48,424	$ 165,665	$ 218,514	$ 47,502	$ 36,593	$ 516,698
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ 663	$ 77	$ 4	$ 745
Collectively evaluated for impairment	$ 47,555	$ 161,734	$ 215,602	$ 47,123	$ 36,589	$ 508,602

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2021:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 435	$ 1,287	$ 2,237	$ 725	$ 252	$ 4,936
Charge-offs	-	-	(42)	(75)	(293)	(410)
Recoveries	-	2	1	37	138	178
Provisions	8	29	36	10	82	165
Ending balance	$ 443	$ 1,318	$ 2,232	$ 697	$ 179	$ 4,869
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 443	$ 1,318	$ 2,232	$ 697	$ 179	$ 4,869
Loans receivable:						
Loans receivable	$ 33,377	$ 121,814	$ 151,379	$ 42,558	$ 31,977	$ 381,105
Purchase credit impaired loans	-	-	-	-	-	-
Ending balance - total	$ 33,377	$ 121,814	$ 151,379	$ 42,558	$ 31,977	$ 381,105
Ending balances:						
Individually evaluated for impairment	$ 21	$ -	$ 792	$ 47	$ 22	$ 882
Collectively evaluated for impairment	$ 33,356	$ 121,814	$ 150,587	$ 42,511	$ 31,955	$ 380,223

Credit quality indicators:

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

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

Grades 4 is considered "Watch - Special Mention", respectively, and are deemed to be loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's position at some future date.

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

Note 5. Loans Receivable, Continued

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

The following is an analysis of our loan portfolio by credit quality indicators, excluding PCI loans, at December 31, 2022:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total Loans Receivable
Grade 1	$ -	$ -	$ 203	$ 4,683	$ 1,578	$ 6,464
Grade 2	25	5,030	931	-	12	5,998
Grade 3	47,489	155,921	211,789	42,283	33,742	491,224
Grade 4	146	1,794	956	100	109	3,105
Grade 5	93	320	1,924	192	27	2,556
	$ 47,753	$ 163,065	$ 215,803	$ 47,258	$ 35,468	$ 509,347

The following is an analysis of our loan portfolio by credit quality indicators associated with PCI loans at December 31, 2022:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total Loans Receivable
Grade 1	$ -	$ -	$ -	$ 302	$ -	$ 302
Grade 2	-	-	-	-	-	-
Grade 3	869	3,389	2,164	-	-	6,422
Grade 4	-	-	85	-	-	85
Grade 5	-	542	-	-	-	542
	$ 869	$ 3,931	$ 2,249	$ 302	$ -	$ 7,351

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2021:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total Loans Receivable
Grade 1	$ -	$ -	$ -	$ 1,297	$ 443	$ 1,740
Grade 2	-	-	-	893	10	903
Grade 3	33,113	120,149	148,210	39,982	31,416	372,870
Grade 4	162	1,225	986	224	84	2,681
Grade 5	102	440	2,183	162	24	2,911
	$ 33,377	$ 121,814	$ 151,379	$ 42,558	$ 31,977	$ 381,105

Note 5. Loans Receivable, Continued

The following is an aging analysis of our loan portfolio, excluding PCI loans, at December 31, 2022:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Real estate - construction	$ 104	$ 56	$ -	$ 160	$ 47,395	$ 47,555	$ -
Real estate - commercial	26	-	-	26	161,708	161,734	-
Real estate - residential	115	176	42	333	215,932	216,265	-
Commercial and industrial	36	-	63	99	47,101	47,200	-
Consumer and other	54	26	-	80	36,513	36,593	-
	$ 335	$ 258	$ 105	$ 698	$ 508,649	$ 509,347	$ -

The following is an aging analysis of our loan portfolio associated with PCI loans at December 31, 2022:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Real estate - construction	$ -	$ -	$ -	$ -	$ 869	$ 869	$ -
Real estate - commercial	-	-	604	604	3,327	3,931	-
Real estate - residential	133	-	-	133	2,116	2,249	-
Commercial and industrial	-	-	-	-	302	302	-
Consumer and other	-	-	-	-	-	-	-
	$ 133	$ -	$ 604	$ 737	$ 6,614	$ 7,351	$ -

The following is an aging analysis of our loan portfolio at December 31, 2021:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Real estate - construction	$ -	$ -	$ -	$ -	$ 33,377	$ 33,377	$ -
Real estate - commercial	15	-	-	15	121,799	121,814	-
Real estate - residential	112	118	113	343	151,036	151,379	-
Commercial and industrial	-	23	-	23	42,535	42,558	-
Consumer and other	38	4	-	42	31,935	31,977	-
	$ 165	$ 145	$ 113	$ 423	$ 380,682	$ 381,105	$ -

At December 31, 2022, the unpaid principal balance of PCI loans was $7,954,428. Changes in the amount of accretable yield on PCI loans for the year ended December 31, 2022 were as follows:

	2022	2021
Accretable yield, beginning of period:	-	-
Additions	622	-
Accretion	(19)	-
Reclassification from (to) non-accretable difference	-	-
Other changes, net	-	-
Accretable yield, end of period	603	-

Note 5. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio, excluding PCI loans, detailing the related allowance recorded at December 31, 2022:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - commercial	-	-	-	-	-
Real estate - residential	663	663	-	697	24
Commercial and industrial	77	77	-	50	2
Consumer and other	5	5	-	6	1
	745	745	-	753	27
With an allowance recorded:					
Real estate - residential	-	-	-	-	-
	-	-	-	-	-
Total:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - commercial	-	-	-	-	-
Real estate - residential	663	663	-	697	24
Commercial and industrial	77	77	-	50	2
Consumer and other	5	5	-	6	1
	$ 745	$ 745	$ -	$ 753	$ 27

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2021:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - construction	$ 21	$ 21	$ -	$ 24	$ -
Real estate - commercial	-	-	-	-	-
Real estate - residential	792	792	-	786	27
Commercial and industrial	47	47	-	43	3
Consumer and other	22	22	-	17	1
	882	882	-	870	31
With an allowance recorded:					
Real estate - residential	-	-	-	-	-
	-	-	-	-	-
Total:					
Real estate - construction	$ 21	$ 21	$ -	$ 24	$ -
Real estate - commercial	-	-	-	-	-
Real estate - residential	792	792	-	786	27
Commercial and industrial	47	47	-	43	3
Consumer and other	22	22	-	17	1
	$ 882	$ 882	$ -	$ 870	$ 31

Note 5. Loans Receivable, Continued

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

(Dollars in thousands)	2022	2021
Real estate - construction	$ -	$ 21
Real estate - commercial	-	-
Real estate - residential	414	524
Commercial and industrial	77	23
Consumer and other	-	22
Purchased credit impaired loans	542	-
	$ 1,033	$ 590

Troubled debt restructurings:

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

(Dollars in thousands)	2022	2021
Performing TDRs	$ 253	$ 280
Nonperforming TDRs	32	74
Total TDRs	$ 285	$ 354

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

	For the year ended December 31, 2022		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer and other	1	$ 3	$ 3
Total	1	$ 3	$ 3

During the year ended December 31, 2022, we modified one loan that was considered a troubled debt restructuring. During the year ended December 31, 2022, no loans that had been restructured during previous years subsequently defaulted (as defined by non-accrual classification) during the year.

Note 5. Loans Receivable, Continued

Troubled debt restructurings, continued:

	For the year ended December 31, 2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real Estate – residential	1	$ 20	$ 20
Total	1	$ 20	$ 20

During the year ended December 31, 2021, we modified one loan that was considered a troubled debt restructuring. During the year ended December 31, 2021, no loans that had been restructured during previous years subsequently defaulted (as defined by non-accrual classification) during the year.

Loan modifications under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act):

The CARES Act signed into law on March 27, 2020, amended GAAP with respect to the modification of loans to borrowers affected by the COVID-19 pandemic. Among other criteria, this guidance provided that short-term loan modifications made on a good faith basis to borrowers who were current as defined under the CARES Act prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. To qualify as an eligible loan under the CARES Act, a loan modification must be 1) related to COVID-19; 2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and 3) executed between March 1, 2020, and the earlier of a) 60 days after the date of termination of the national emergency by the President or b) December 31, 2020. On April 7, 2020, the federal banking regulators issued a revised interagency statement on loan modifications and the reporting for financial institutions working with customers affected by the COVID-19 pandemic (Interagency Statement). The Interagency Statement confirmed that COVID-19 related short--term loan modifications (e.g., payment deferrals of six months or less) provided to borrowers that were current (less than 30 days past due) at the time the relief was granted are not TDR loans. Borrowers that do not meet the criteria in the CARES Act or the Interagency Statement are assessed for TDR loan classification in accordance with the Company's accounting policies. Beginning in March 2020, the Company provided payment accommodations to customers, consisting of 90-day payment extensions to borrowers negatively impacted by COVID-19. During 2021, the Company processed principal deferments to 4 customers, with an aggregate loan balance of $383,970. The principal deferments represented 0.10% of the Company's total loan portfolio as of December 31, 2021. Borrowers who were current prior to relief and not experiencing financial difficulty prior to COVID-19 were determined not to be considered TDRs. Of the 4 customers that received payment accommodations during 2021, no customers remained in deferral as of December 31, 2022.

Note 5. Loans Receivable, Continued

Payroll Protection Program (PPP) loans:

On March 27, 2020, the CARES Act was signed into law, which established the PPP. Under the program, the Small Business Administration (SBA) will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for Paycheck and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of five years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. The Bank received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. As of December 31, 2021 and 2020, the Company had received processing fees totaling $1,576,322 and $1,786,521 and had recognized $2,322,799 and $1,020,932, respectively. The Company provided $19.2 million in funding to 556 customers and $42.0 million to 682 customers through the PPP during 2021 and 2020, respectively. Because these loans are 100% guaranteed by the SBA and did not undergo the Company’s typical underwriting process, they are not graded and do not have an associated reserve. The SBA began accepting PPP Forgiveness Applications on August 10, 2020. Borrowers must submit the application within ten months of the completion of the covered period. Once the borrower has submitted the application, the Company has 60 days to review, issue a lender decision, and submit to the SBA. Once the application is submitted, the SBA has 90 days to review and remit the appropriate forgiveness amount to the Company plus any interest accrued through the date of payment. The Company received $42.1 million from the SBA for the forgiveness of 986 PPP loans and $17.3 million from the SBA for the forgiveness of 255 PPP loans as of December 31, 2021 and 2020, respectively.

Acquired loans:

On November 30, 2018, the Company acquired Regional Bankshares, Inc. PCI loans acquired totaled $0.8 million, and acquired performing loans totaled $78.4 million, both net of purchase discounts. The gross contractual amount receivable for PCI loans and acquired performing loans was approximately $1.2 million and $81.2 million, respectively, as of the acquisition date. The fair value of the total loan portfolio was estimated to be $79.8 million, which represents a $2.6 million discount. As of December 31, 2022 and December 31, 2021, the discount on purchased loans to include both acquired performing loans and PCI loans totaled $0.1 million and $0.6 million, respectively. During 2022 and 2021, the Company recorded charge-offs on PCI loans totaling $0 and $0, respectively. During 2022 and 2021, the Company recorded discount accretion on acquired loans totaling $525,000.

Note 6. Other Real Estate Owned

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

(Dollars in thousands)	2022	2021
Balance, beginning of year	$ 320	$ 299
Additions	609	524
Sales	(320)	(478)
Write-downs	-	(25)
Balance, end of year	$ 609	$ 320

Note 7. Premises and Equipment

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

(Dollars in thousands)	2022	2021
Land	$ 13,020	$ 5,846
Building and improvements	23,217	16,998
Furniture and equipment	5,550	5,100
Total	41,787	27,944
Less accumulated depreciation	(11,199)	(10,737)
Premises and equipment, net	$ 30,588	$ 17,207

Depreciation expense for the years ended December 31, 2022 and 2021 was $1,149,992 and $959,002, respectively. During 2021 the Company recorded fixed asset impairment adjustments of $100,000.

Note 8. Goodwill and Core Deposit Intangible

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

	2022		2021	
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite lived intangible asset:				
Core deposit intangible	$ 7,079	$ 1,070	$ 2,049	$ 614

Note 8. Goodwill and Core Deposit Intangible, Continued

Based on the core deposit intangibles as of December 31, 2022, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

(Dollars in thousands)	Amount
2023	$ 708
2024	708
2025	708
2026	708
2027 and thereafter	3,176
Total	$ 6,008

Amortization expense of $456,422 and $204,922 related to the core deposit intangibles was recognized in 2022 and 2021, respectively.

As of December 31, 2022 and 2021, goodwill totaled $18,482,584 and 6,551,040, respectively. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. As of December 31, 2022 and 2021, management determined that no impairment existed on the goodwill.

Note 9. Deposits

At December 31, 2022, the scheduled maturities of certificates of deposit are as follows:

(Dollars in thousands)	Amount
2023	$ 75,574
2024	19,269
2025	3,395
2026	2,540
2027 and thereafter	2,235
Total	$ 103,013

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2022 and 2021 were $21,339,886 and $9,718,500, respectively. The Company did not carry brokered deposits as of December 31, 2022 and 2021.

The Company did not carry any deposits with a combined balance in excess of 5% of total deposits as of December 31, 2022 and 2021. The Company has identified a concentration of 2.8% of municipal deposits present as of December 31, 2022.

Overdrawn transaction accounts in the amount of $249,905 and $219,664 were classified as loans as of December 31, 2022 and 2021, respectively.

Note 10. Advances from Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31, 2022 and 2021:

(Dollars in thousands)

Description	Current Interest Rate	2022 Balance	2021 Balance
Fixed rate advances maturing			
November 12, 2027	1.61%	$ -	$ 4,000
November 12, 2027	1.41%	-	4,000
June 4, 2029	1.20%	-	5,000
June 4, 2029	1.13%	-	5,000
February 26, 2030	0.79%	-	3,000
February 26, 2030	0.64%	-	3,000
		$ -	$ 24,000

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

As collateral, the Bank has pledged first mortgage loans on one to four family residential loans aggregating $157,704,235 at December 31, 2022. In addition, the Company's Federal Home Loan Bank stock is pledged to secure the borrowings. Certain advances are subject to prepayment penalties.

Note 11. Subordinated Debt

On March 11, 2022, the Company issued subordinated notes with several purchasers in the amount of $25,000,000. The subordinated notes are 10-year fixed-to-floating rate instruments with principal payable at maturity on March 15, 2032. The subordinated notes bear a fixed rate of 4.25 percent with semi-annual interest payments for the first five years. For the remaining term, the rate is a floating rate plus 290 basis points with quarterly interest payments. As of December 31, 2022, the balance outstanding on the subordinated notes was $25,000,000.

Note 12. Lease Commitments

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

Rental expense recorded under leases for the years ended December 31, 2022 and 2021 was $142,959 and $147,418, respectively, and recorded in other operating expenses within the consolidated statements of income.

Note 12. Lease Commitments, Continued

The weighted average remaining lease term as of December 31, 2022 is 5.08 years and the weighted average discount rate used is 3.35%. The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 are as follow:

(Dollars in thousands)	Amount
2023	$ 90
2024	90
2025	90
2026	90
2027 and thereafter	98
Total undiscounted lease payments	458
Less effect of discounting	(43)
Present value of estimated lease payments (lease liability)	$ 415

Note 13. Stock Options

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

There were 79,602 options outstanding as of December 31, 2022 and 2021. As of December 31, 2022, all of the outstanding options were exercisable. None of the options outstanding at December 31, 2022 have an expiration date. The aggregate intrinsic value of these options was $2,655,523 and $2,575,921 at December 31, 2022 and 2021, respectively. During 2022 and 2021, no options were exercised.

Note 14. Earnings Per Share

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

Note 14. Earnings Per Share, Continued

(Dollars in thousands, except share and per share amounts)	2022	2021
Basic earnings per common share:		
Net income available to common shareholders	$ 7,356	$ 6,524
Basic average common shares outstanding	1,968,755	1,968,755
Basic earnings per common share	$ 3.74	$ 3.31
Diluted earnings per common share:		
Net income available to common shareholders	$ 7,356	$ 6,524
Basic average common shares outstanding	1,968,755	1,968,755
Incremental shares from assumed conversions:		
Stock options	73,765	73,598
Diluted average common shares outstanding	$ 2,042,520	$ 2,042,353
Diluted earnings per common share	$ 3.60	$ 3.19

Note 15. Capital Requirements and Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

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

Note 15. Capital Requirements and Regulatory Matters, Continued

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

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

As of December 31, 2022, the most recent notifications from the Bank's primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's categories.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2022 and 2021:

(Dollars in thousands)	**Actual**		**For Capital Adequacy Purposes**		**To Be Well-Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2022						
The Bank						
Total capital (to risk weighted assets)	$ 80,880	14.20%	$ 45,572	8.00%	$ 56,965	10.00%
Tier 1 capital (to risk weighted assets)	75,982	13.34%	34,179	6.00%	45,572	8.00%
Tier 1 capital (to average assets)	75,982	7.78%	39,078	4.00%	48,847	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	75,982	13.34%	25,634	4.50%	37,028	6.50%

(Dollars in thousands)	**Actual**		**For Capital Adequacy Purposes**		**To Be Well-Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2021						
The Bank						
Total capital (to risk weighted assets)	$ 71,219	17.66%	$ 32,254	8.00%	$ 40,318	10.00%
Tier 1 capital (to risk weighted assets)	66,350	16.46%	24,191	6.00%	32,254	8.00%
Tier 1 capital (to average assets)	66,350	8.49%	31,304	4.00%	39,130	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	66,350	16.46%	18,143	4.50%	26,207	6.50%

Note 16. Restrictions on Dividends, Loans, and Advances

The ability of the Company to pay cash dividends to shareholders is dependent on its ability to receive cash, in the form of dividends from the Bank. South Carolina banking regulations restrict the amount of dividends that can be paid to shareholders. All of the Bank's dividends to the parent company are payable only from the retained earnings of the Bank. At December 31, 2022, the Bank's retained earnings were $53,912,975. The Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the Commissioner of Banking provided that the Bank received a composite rating of one or two at the last Federal or State regulatory examination. Under Federal Reserve Board regulations, the amounts of loans or advances from the Bank to the parent company are also restricted.

Note 17. Employee Retirement and Stock Ownership Plan

The Company sponsors an employee retirement and stock ownership plan. Employees eligible for the Company stock component of the KSOP plan include all employees who work at least 1,000 hours during the initial twelve consecutive months of employment, or any plan year beginning after the date of employment. The Company periodically makes discretionary contributions to the KSOP. For the years ended December 31, 2022 and 2021, the Company contributed $148,419 and $148,046 to the KSOP, respectively.

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

	2022	2021
Allocated shares	85,691	85,691
Shares released for allocation	3	-
Unreleased shares	(163)	-
	85,531	85,691

Note 18. Income Taxes

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

(Dollars in thousands)	2022	2021
Current income tax expense:		
Federal	$ 1,586	$ 1,280
State	174	97
Total current	1,760	1,377
Deferred income tax expense	145	271
Income tax expense	$ 1,905	$ 1,648

Note 18. Income Taxes, Continued

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

(Dollars in thousands)	2022	2021
Deferred tax assets:		
Other real estate owned	$ 48	$ -
Allowance for loan losses	1,029	984
Interest on nonaccrual loans	18	15
Reserve for contingencies	21	21
Unrealized loss on securities available-for-sale	3,446	110
Impairment of fixed assets	124	124
Unearned income	21	6
Net operating losses	148	98
PPP servicing fees	-	4
Other	-	156
Gross deferred tax assets	4,855	1,518
Valuation allowance	144	96
Net deferred tax assets	4,711	1,422
Deferred tax liabilities:		
Accumulated depreciation	438	537
Goodwill	240	139
Mark-to-market purchase accounting	211	148
Deferred loan costs	185	164
Deferred gain on like kind exchange	244	244
Other	12	-
Total deferred tax liabilities	1,330	1,232
Net deferred tax asset	$ 3,381	$ 190

Tax returns for 2019 and subsequent years are subject to examination by taxing authorities.

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2022 and 2021, management has recorded a valuation allowance of approximately $144,000 and $96,000, respectively. The valuation allowance is associated with South Carolina net operating losses at the Holding Company. Management determined that it is more likely than not that the remaining deferred tax asset at December 31, 2022 and 2021 will be realized and, accordingly, did not establish a valuation allowance on those assets.

The Company has state net operating losses of $3,758,418 for the year ended December 31, 2022. These state losses begin to expire in the year 2024.

Note 18. Income Taxes, Continued

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

(Dollars in thousands)	2022	2021
Tax expense at statutory rate	$ 1,945	$ 1,716
State income tax, net of federal income tax benefit	137	77
Tax-exempt interest income	(141)	(136)
Nondeductible interest expense to carry tax-exempt instruments	1	1
Change in valuation allowance	48	5
Other, net	(85)	(15)
Total	$ 1,905	$ 1,648

The effective tax rate compared favorably to the statutory federal rate of 21% and South Carolina tax rate of 5% and 4.5% at the holding company and bank levels respectively primarily due to the enactment of new Net Operating Loss ("NOL") provisions under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act permits NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 to be carried back five taxable years. This enabled the Company to carry back losses incurred during the taxable year 2018 to prior years with a higher statutory tax rate, creating a permanent tax rate benefit. As a result, the Company recorded an income tax benefit of $256,097 related to the permanent tax rate benefit during the year ended December 31, 2020.

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

Note 19. Fair Value of Financial Instruments

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

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

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

Note 19. Fair Value of Financial Instruments, Continued

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

Fair value hierarchy:

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

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

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

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

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

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

Loans - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2022 and 2021, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

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

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

	December 31, 2022			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Government-sponsored enterprises	$ 45,206	$ -	$ 45,206	$ -
Mortgage backed securities	84,091	-	84,091	-
Obligations of state and local governments	39,497	-	39,497	-
U.S. Treasuries	32,148	-	32,148	-
Total	$ 200,942	$ -	$ 200,942	$ -

	December 31, 2021			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Government-sponsored enterprises	$ 23,891	$ -	$ 23,891	$ -
Mortgage backed securities	30,900	-	30,900	-
Obligations of state and local governments	34,917	-	34,917	-
U.S. Treasuries	6,005	-	6,005	-
Total	$ 95,713	$ -	$ 95,713	$ -

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy described above for which a nonrecurring change in fair value has been recorded as of December 31, 2022 and 2021.

	December 31, 2022			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 609	$ -	$ -	$ 609
Impaired loans, net specific reserve:				
Real estate - construction	-	-	-	-
Real estate - commercial	-	-	-	-
Real estate - residential	663	-	-	663
Commercial and industrial	77	-	-	77
Consumer and other	5	-	-	5
Total impaired loans, net specific reserve	745	-	-	745
Total	$ 1,354	$ -	$ -	$ 1,354

	December 31, 2021			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 320	$ -	$ -	$ 320
Impaired loans, net specific reserve:				
Real estate - construction	21	-	-	21
Real estate - commercial	-	-	-	-
Real estate - residential	792	-	-	792
Commercial and industrial	47	-	-	47
Consumer and other	22	-	-	22
Total impaired loans, net specific reserve	882	-	-	882
Total	$ 1,202	$ -	$ -	$ 1,202

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2022 and December 31, 2021, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value as of December 31, 2022	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 745	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	$ 609	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

	Fair Value as of December 31, 2021	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 882	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	$ 320	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

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

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and non-recurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2022 and 2021.

	December 31,			
	2022		2021	
(Dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 204,567	$ 204,567	$ 278,375	$ 278,375
Federal funds sold	1,251	1,251	-	-
Securities available-for-sale	200,942	200,942	95,713	95,713
Nonmarketable equity securities	1,138	1,138	1,339	1,339
Loans held for sale	-	-	1,300	1,300
Loans held for investment, net	511,777	497,348	376,236	378,039
Deposits	896,963	766,601	687,561	646,063
Securities sold under agreement to repurchase	5,838	5,838	5,567	5,567
Advances from the Federal Home Loan Bank	-	-	24,000	23,106
Subordinated debentures	24,453	24,453	-	-
Junior Subordinated debentures	3,093	3,093	3,045	3,045

Cash and cash equivalents:

The carrying amount approximates fair value for these instruments.

Investment securities:

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

Loans held for sale:

Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based upon the contractual price to be received from these third parties, which may be different than cost.

Note 19. Fair Value of Financial Instruments, Continued

Loans held for investment:

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

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

Nonmarketable equity securities:

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

Deposits:

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

Federal Home Loan Bank advances:

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

Subordinated debentures:

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

Other borrowings:

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

Note 20. Commitments and Contingencies

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

Note 21. Unused Lines of Credit

At December 31, 2022, the Company had unused lines of credit to purchase federal funds from other financial institutions totaling $40,000,000. Under the terms of the agreements, the Company may borrow at mutually agreed- upon rates for one to fifteen day periods. The Company also has a line of credit to borrow funds from the Federal Home Loan Bank which totaled $115,464,416 as of December 31, 2022. As of December 31, 2022, the Bank had not borrowed on this line.

Note 22. Financial Instruments With Off-Balance Sheet Risk

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

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counter-party.

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

(Dollars in thousands)	2022	2021
Commitments to extend credit	$ 51,612	$ 40,101
Standby letters of credit	1,619	605

Note 23. Related Party Transactions

Certain parties (principally certain directors and shareholders of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Bank. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The aggregate dollar amount of loans to related parties was $4,138,023 and $2,973,938 at December 31, 2022 and 2021, respectively.

Deposits by directors including their affiliates and executive officers totaled approximately $10,145,538 and $8,607,219 at December 31, 2022 and 2021, respectively.

Note 24. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

The Company has disclosed deposit concentrations in Note 9. In relation to current economic conditions, management has monitored deposit concentrations through the date the financial statements were issued noting no significant changes to concentrations. In addition, there has been no significant deposit deterioration through the date the financial statements were issued.

The Company has disclosed its investment portfolio position in Note 4. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

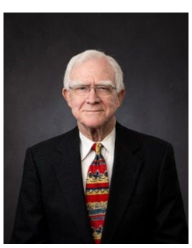
The Citizens Bank Board of Directors

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

Joseph L. Bostick, Jr.
Retired Oil Distributor

Thomas Bouchette
President
Chief Operating Officer

H. Blake Gibbons, Jr.
Vice Chairman



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

James H. Johnson
Owner
Coastal Indian Motorcycle

Kenneth W. Lee
Retired Bank Officer

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

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

C. Dorn Smith, III, M.D.
Chief Executive Officer &
Chairman of the Board
Cardiothoracic Surgeon
MUSC

Philip M. Smith
Retired Bank Officer

Citizens Bancshares Corporation Board of Directors

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General Contractor
RW Askins Construction, Inc.

Dawn M. Munn
Pharmacy Manager
Health Care Partners of SC

Joseph L. Bostick, Jr.
Retired Oil Distributor

Samuel A. Rodgers Jr.
Executive Vice President
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Michael L. Hodge, M.D. FAAN
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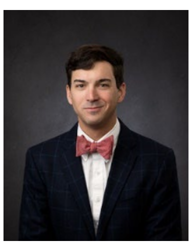
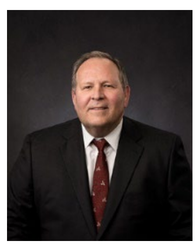


James H. Johnson
Owner
Coastal Indian Motorcycle



C. Dorn Smith, III, M.D.
Chief Executive Officer &
Chairman of the Board
Cardiothoracic Surgeon
MUSC

Not Pictured

Dixie S. Bullock
Director

Not Pictured

Andrew B. Smith
Director

Executive Officers

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

H. Blake Gibbons, Jr.
Vice Chairman

Thomas Bouchette
President
Chief Operating Officer

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

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

James B. Smith
Executive Vice President
Regional Executive &
Mortgage Director

Kevin R. Gause
Senior Vice President
Chief Credit Officer

Richard W. McCutcheon
Senior Vice President

The Citizens Bank Officers

Corporate Office

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

Operations Center

Tiffany P. Suggs	Senior Vice President
Teresa L. Floyd	Vice President
Thomas D. Ham, II	Vice President
Leah C. Hancock	Vice President
Elizabeth M. Atkinson	Assistant Vice President
Eric M. Pagan	Assistant Vice President

Olanta Branch

Jessica L. Craft	Banking Officer

Turbeville Branch

Susan H. Alexander	Vice President

Lynchburg Branch/Operations Annex

Glenn D. Buddin, Jr	Vice President

Lake City Branch

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

Sumter Branch

Samuel T. Dubose	Vice President
Paul E. Robbins	Vice President

Pawleys Island Branch

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

Timmonsville Branch

Sharon L. Green	Vice President

St. George Branch

Gregory P. Shuler	Vice President

Florence-Pamplico Hwy Branch

Cherry T. Gerrald	Assistant Vice President

Florence-Palmetto Street Branch

John L. Hanna	Senior Vice President
Pamela M. Turner	Assistant Vice President
Robin A. Poston	Banking Officer

Pamplico Branch

Tammy H Jones	Banking Officer

Johnsonville Branch

Ronald L. Coker, Jr.	Assistant Vice President

Georgetown Branch

William D. Starnes	Vice President
Chandler P. Stokes	Assistant Vice President

Kingstree Branch

Alan K. Chandler	Vice President
Glenda B. Miller	Banking Officer

Murrells Inlet Branch

Tanya L. Yow	Assistant Vice President

Hartsville Branch

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

McBee Branch

Denise L. Tedder	Banking Officer

Camden Branch

Deborah P. Outlaw	Vice President

Lexington LPO

W. David Keller	Senior Vice President

Carolina Forest Branch

Gretchen Floyd *(Acting Manager)*	Vice President

North Myrtle Beach Branch

James B. Smith	Executive Vice President
Joshua C. Wise	Senior Vice President
K. Gretchen Floyd	Vice President
Kimberly B. Rue	Assistant Vice President
Jennifer A. Scialabba	Assistant Vice President
Kyle D. Tuil	Assistant Vice President

Myrtle Beach – International Drive Branch

Collier J. Schettig	Senior Vice President
Brandi L. Sharkey	Assistant Vice President

North Myrtle Beach – Windy Hill Branch

K. Gretchen Floyd *(Acting Manager)*	Vice President

Myrtle Beach – Farrow Commons Branch

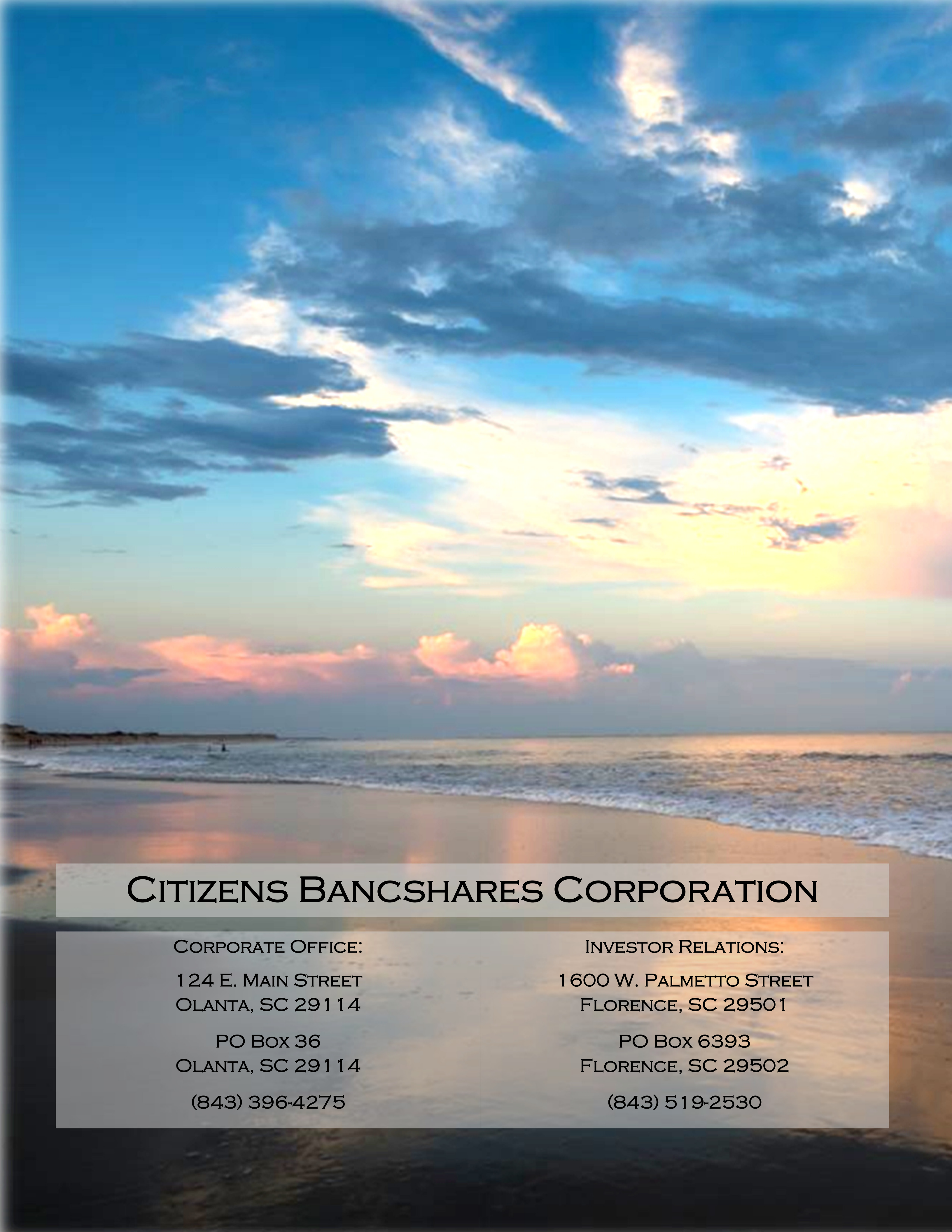
Jeana R. Tart-Williams	Vice President
Jolene L. Campbell	Vice President

THE CITIZENS BANK

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

For the year ended December 31, 2022

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



Citizens Bancshares Corporation

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