
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

or

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-14535

Citizens Bancshares Corporation

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of
incorporation or organization)

58-1631302

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

75 Piedmont Avenue, N.E., Atlanta, Georgia
(Address of principal executive offices)

30303
(Zip Code)

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

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

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

20,000,000 Shares of Common Stock, \$1.00 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No.

The number of shares outstanding for each of the registrant's classes of common stock as of March 26, 2009 was: 2,011,007 shares of Common Stock, \$1.00 par value, 90,000 shares of Non-Voting Common Stock, \$1.00 par value.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of common stock held by non-affiliates of the Registrant, based on the last sale price of \$8.17 per share on June 30, 2008, was approximately \$10,247,000

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated : (1) any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1890).

Proxy Statement for Annual Meeting of Shareholders to be held May 27, 2009

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Report, including, without limitation, matters discussed under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” of Citizens Bancshares Corporation (the “Company”) are “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, integration of recently acquired banks, pending or proposed acquisitions, our other business strategies, our expectations with respect to our allowance for loan losses and impaired loans, anticipated capital expenditures for our operations center, and other statements that are not historical facts. When we use words like “anticipate”, “believe”, “intend”, “expect”, “estimate”, “could”, “should”, “will”, and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. Factors that may cause actual results to differ materially from those expressed or implied by such forward-looking statements include, among others, the following possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) changes in the interest rate environment may reduce margins; (3) general economic conditions may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduction in demand for credit; (4) legislative or regulatory changes, including changes in accounting standards, may adversely affect the businesses in which we are engaged; (5) costs or difficulties related to the integration of our businesses, may be greater than expected; (6) deposit attrition, customer loss or revenue loss following acquisitions may be greater than expected; (7) competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than us; and (8) adverse changes may occur in the equity markets.

Many of such factors are beyond our ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. We disclaim any obligation to update or revise any forward-looking statements contained in this Report, whether as a result of new information, future events or otherwise.

The Company cautions that the foregoing list of important factors is not exclusive. For further information regarding the risk factors applicable to the Company, please see “Risk Factors” on page 13.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

The Company

General

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

Over the years, the Company has completed several acquisitions. On January 30, 1998, the Company merged with First Southern Bancshares, Inc., whose banking subsidiary, First Southern Bank simultaneously merged into the Bank. On March 10, 2000, the Company acquired certain assets and all of the deposits of Mutual Federal Savings Bank, a failing minority bank, from the Federal Deposit Insurance Corporation. On February 28, 2003, the Company acquired CFS Bancshares, Inc., a minority-owned savings and loan holding company located in Birmingham, Alabama, whose banking subsidiary, Citizens Federal Savings Bank, simultaneously merged into the Bank. This acquisition has resulted in a significant expansion of the Company’s market area. On December 10, 2008, the Bank entered into an agreement with The Peoples Bank, a Georgia state bank, to acquire the Lithonia, Georgia branch of The Peoples Bank. This acquisition was completed on March 27, 2009.

The Company may make additional acquisitions in the future in the event that such acquisitions are deemed to be in the best interests of the Company and its shareholders. Such acquisitions, if any, will be subject to certain regulatory approvals and requirements. See “Business—Bank Holding Company Regulations.”

The Bank

General

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

The Bank’s home office is located at 75 Piedmont Avenue, N.E., Atlanta, Georgia 30303. Including its main branch, the Bank operates ten branch offices located in Atlanta, East Point, Lithonia, Decatur, Stone Mountain and Columbus, Georgia, and Birmingham and Eutaw, Alabama. On March 27, 2009, the Bank completed its purchase of an additional branch in Lithonia, Georgia. The Bank conducts a general commercial banking business that serves Fulton, DeKalb and Muscogee Counties, Georgia, as well as Jefferson and Greene Counties, Alabama, acts as an issuing agent for U.S. savings bonds, travelers checks and cashiers checks, and offers collection teller services. The Bank has no subsidiaries.

The Bank does not engage in any line of business other than normal commercial banking activities. The Bank does not engage in any operations in foreign countries nor is a material portion of the Bank’s revenues derived from customers in foreign countries. The business of the Bank is not considered to be seasonal nor is the Bank’s business dependent on any industry.

The Bank's Primary Service Area

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

Competition

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

Deposits

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

Loan Portfolio

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

Consumer Loans

The Bank's consumer loans consist primarily of installment loans to individuals for personal, family and household purposes, including loans for automobiles, home improvements and investments. This category of loans also includes loans secured by second mortgages on the residences of borrowers.

Commercial Lending

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

Investments

As of December 31, 2008, investment securities comprised approximately 27% of the Bank's assets, with loans (net of loan loss reserves) comprising approximately 60% of assets. The Bank invests

primarily in obligations of the United States, obligations guaranteed as to principal and interest by the United States, government-sponsored enterprises securities and other taxable securities.

Asset/Liability Management

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

The Bank's asset/liability mix is monitored on a daily basis and a quarterly report reflecting the interest-sensitive assets and interest-sensitive liabilities is prepared and presented to the Bank's Board of Directors asset/liability committee during their meeting which takes place every two months. The objective of this policy is to control interest-sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on the Bank's earnings.

Correspondent Banking

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

Employees

As of December 31, 2008, the Bank had 127 full-time equivalent employees (the Company has no employees who are not also employees of the Bank). The Bank is not a party to any collective bargaining agreement and, in the opinion of management, the Bank enjoys excellent relations with its employees.

Website Address

Our corporate website address is www.ctbconnect.com. From this website, select the "Investor Information" tab followed by selecting "Annual Reports/Financial Statements". Our filings with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available and accessible soon after we file them with the SEC.

Supervision and Regulation

Both the Company and the Bank are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of their operations. These laws are generally intended to protect depositors and not shareholders. Legislation and regulations authorized by legislation influence, among other things:

- how, when and where we may expand geographically;
- into what product or service market we may enter;
- how we must manage our assets; and

- under what circumstances money may or must flow between the parent bank holding company and the subsidiary bank.

Set forth below is an explanation of the major pieces of legislation affecting our industry and how that legislation affects our actions. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on our business and prospects, and legislative changes and the policies of various regulatory authorities may significantly affect our operations. We cannot predict the effect that fiscal or monetary policies, or new federal or state legislation may have on our business and earnings in the future.

The Company

Since the Company owns all of the capital stock of the Bank, it is a bank holding company under the federal Bank Holding Company Act of 1956. As a result, the Company is primarily subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”). As a bank holding company located in Georgia, the Georgia Department of Banking and Finance (the “DBF”) also regulates and monitors all significant aspects of our operations.

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

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

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

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

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

the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

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

The regulations provide a procedure for challenge of the rebuttable control presumption.

Permitted Activities. The Bank Holding Company Act has generally prohibited a bank holding company from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those determined by the Federal Reserve to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Provisions of the Gramm-Leach-Bliley Act have expanded the permissible activities of a bank holding company that qualifies as a financial holding company. Under the regulations implementing the Gramm-Leach-Bliley Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to financial activity. Those activities include, among other activities, certain insurance and securities activities.

To qualify to become a financial holding company, the Bank and any other depository institution subsidiary of the Company must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least “satisfactory.” Additionally, the Company must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days’ written notice prior to engaging in a permitted financial activity. While the Company meets the qualification standards applicable to financial holding companies, we have not elected to become a financial holding company at this time.

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

The Bank

Since the Bank is a commercial bank chartered under the laws of the State of Georgia and is a Federal Reserve member bank, it is primarily subject to the supervision, examination and reporting requirements of the DBF and the Federal Reserve Bank of Atlanta. The DBF and the Federal Reserve Bank of Atlanta regularly examine the Bank’s operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Additionally, the Bank’s deposits are insured by the FDIC to the maximum extent provided by law. The Bank is also subject to numerous state and federal statutes and regulations that affect its business, activities and operations.

Branching. Under current Georgia law, the Bank may open branch offices throughout Georgia with the prior approval of the DBF. In addition, with prior regulatory approval, the Bank may acquire branches of existing banks located in Georgia. The Bank and any other national or state-chartered bank generally may branch across state lines by merging with banks in other states if allowed by the

applicable states' laws. Georgia law, with limited exceptions, currently permits branching across state lines through interstate mergers.

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

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital levels for each of the categories. As of December 31, 2008, the Bank qualified for the well-capitalized category.

A “well-capitalized” bank is one that significantly exceeds all of its capital requirements, which include maintaining a total risk-based capital ratio of at least 10%, a tier 1 risk-based capital ratio of at least 6%, and a tier 1 leverage ratio of at least 5%. Generally, a classification as well capitalized will place a bank outside of the regulatory zone for purposes of prompt corrective action. However, a well-capitalized bank may be reclassified as “adequately capitalized” based on criteria other than capital, if the federal regulator determines that a bank is in an unsafe or unsound condition, or is engaged in unsafe or unsound practices and has not corrected the deficiency.

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

FDIC Insurance Assessments. The FDIC is an independent agency of the United States government that uses the Deposit Insurance Fund to protect against the loss of insured deposits if an FDIC-insured bank or savings association fails. The FDIC must maintain the Deposit Insurance Fund within a range between 1.15 percent and 1.50 percent of all insured deposits.

The FDIC has adopted a risk-based assessment system for insured depository institutions that accounts for the risks attributable to different categories and concentrations of assets and liabilities. The system is designed to assess higher rates on those institutions that pose greater risks to the Deposit Insurance Fund. The FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Within the lowest risk category, Risk Category I, rates vary based on each institution’s CAMELS component ratings, certain financial ratios, and long-term debt issuer ratings, if any.

Capital group assignments are made quarterly and an institution is assigned to one of three capital categories: (1) well capitalized, (2) adequately capitalized, or (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the

“undercapitalized” category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution’s primary federal banking regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution’s financial condition and the risk posed to the deposit insurance funds.

For 2008, assessments ranged from 5 to 43 cents per \$100 of deposits, depending on the institution’s risk category. Institutions in the lowest risk category, Risk Category I, were charged a rate between 5 and 7 cents per \$100 of deposits. Risk Categories II, III, and IV were charged 10 basis points, 28 basis points and 43 basis points, respectively.

Because the Deposit Insurance Fund reserve fell below 1.15 percent as of June 30, 2008, and was expected to remain below 1.15 percent, the Federal Deposit Insurance Reform Act of 2005 required the FDIC to establish and implement a restoration plan to restore the reserve ratio to no less than 1.15 percent within five years, absent extraordinary circumstances.

On December 16, 2008, the FDIC adopted, as part of its restoration plan, a uniform increase to the assessment rates by 7 basis points (annualized) for the first quarter 2009 assessments. As a result, institutions in Risk Category I will be charged a rate between 12 and 14 cents per \$100 of deposits. Risk Categories II, III, and IV will be charged 17 basis points, 35 basis points, and 50 basis points, respectively.

On February 27, 2009, the FDIC amended its restoration plan to extend the period for restoration to seven years and further revised the risk-based assessment system. Starting with the second quarter of 2009, institutions in Risk Category I will have a base assessment rate between 12 and 16 cents per \$100 of deposits. Risk Categories II, III, and IV will have base assessment rates of 22 basis points, 32 basis points, and 45 basis points, respectively. These base assessments will be subject to adjustments based on each institution’s unsecured debt, secured liabilities, and use of brokered deposits. As a result of these adjustments, institutions in Risk Category I will be charged rate between 7 and 24 cents per \$100 of deposits. Risk Categories II, III, and IV will be charged between 17 and 43 basis points, 27 and 58 basis points, and 40 and 77.5 basis points, respectively.

Under an interim rule adopted on February 27, 2009, the FDIC will impose an emergency special assessment of 20 basis points as of June 30, 2009, and may impose additional emergency special assessments of up to 10 basis points thereafter if the reserve ratio is estimated to fall to a level that the FDIC believes would adequately affect public confidence or to a level that shall be close to zero or negative at the end of a calendar quarter.

The FDIC may, without further notice-and-comment rulemaking, adopt rates that are higher or lower than the stated base assessment rates, provided that the FDIC cannot (i) increase or decrease the total rates from one quarter to the next by more than three basis points, or (ii) deviate by more than three basis points from the stated assessment rates.

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

FDIC Temporary Liquidity Guarantee Program. On October 14, 2008, the FDIC announced that its Board of Directors, under the authority to prevent “systemic risk” in the U.S. banking system, approved the Temporary Liquidity Guarantee Program (“TLGP”). The purpose of the TLGP is to strengthen confidence and encourage liquidity in the banking system. The TLGP is composed of two components, the Debt Guarantee Program and the Transaction Account Guarantee Program, which are discussed below, and institutions had the opportunity, prior to December 5, 2008, to opt-out of either or both components of the TLGP.

The Debt Guarantee Program. Under the TLGP, the FDIC is permitted to guarantee certain newly issued senior unsecured debt issued by participating financial institutions. The annualized fee that the FDIC will assess to guarantee the senior unsecured debt varies by the length of maturity of the debt. For debt with a maturity of 180 days or less (excluding overnight debt), the fee is 50 basis points; for debt with a maturity between 181 days and 364 days, the fee is 75 basis points, and for debt with a maturity of 365 days or longer, the fee is 100 basis points. The Company and the Bank is participating in the Debt Guarantee component of the TLGP.

The Transaction Account Guarantee Program. Under the TLGP, the FDIC is permitted to fully insure non-interest bearing deposit accounts held at participating FDIC-insured institutions, regardless of dollar amount. The temporary guarantee will expire at the end of 2009. For the eligible noninterest-bearing transaction deposit accounts (including accounts swept from a noninterest bearing transaction account into a noninterest bearing savings deposit account), a 10 basis point annual rate surcharge will be applied to noninterest-bearing transaction deposit amounts over \$250,000. Institutions will not be assessed on amounts that are otherwise insured. The Bank is participating in the Transaction Account Guarantee component of the TLGP.

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

Allowance for Loan and Lease Losses. The Allowance for Loan and Lease Losses (the “ALLL”) represents one of the most significant estimates in the Bank’s financial statements and regulatory reports. Because of its significance, the Bank has developed a system by which it develops, maintains and documents a comprehensive, systematic and consistently applied process for determining the amounts of the ALLL and the provision for loan and lease losses. The Interagency Policy Statement on the Allowance for Loan and Lease Losses, issued on December 13, 2006, encourages all banks to ensure controls are in place to consistently determine the ALLL in accordance with GAAP, the bank’s stated policies and procedures, management’s best judgment and relevant supervisory guidance. Consistent with supervisory guidance, the Bank maintains a prudent and conservative, but not excessive, ALLL, that is at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. The Bank’s estimate of credit losses reflects consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. See “Management’s Discussion and Analysis—Critical Accounting Policies.”

Commercial Real Estate Lending. The Bank’s lending operations may be subject to enhanced scrutiny by federal banking regulators based on its concentration of commercial real estate loans. On December 6, 2006, the federal banking regulators issued final guidance to remind financial institutions of the risk posed by commercial real estate (“CRE”) lending concentrations. CRE loans generally include land development, construction loans and loans secured by multifamily property, and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property.

The guidance prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land represent 100% or more of the institutions total capital, or

- total commercial real estate loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more.

Other Regulations. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates.

- The federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- The Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- The Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies, certain identity theft protections, and certain credit and other disclosures;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Soldiers' and Sailors' Civil Relief Act of 1940, as amended, governing the repayment terms of, and property rights underlying, secured obligations of persons currently on active duty with the United States military;
- Talent Amendment in the 2007 Defense Authorization Act, establishing a 36% annual percentage rate ceiling, which includes a variety of charges including late fees, for certain types of consumer loans to military service members and their dependents; and
- The rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to:

- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- The Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Truth-In-Savings Act, requiring certain disclosures for consumer deposit accounts; and
- The rules and regulations of the various federal banking regulators charged with the responsibility of implementing these federal laws.

Capital Adequacy

The Company and the Bank are required to comply with the capital adequacy standards established by the Federal Reserve, in the case of the Company, and the FDIC, in the case of the Bank. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. Since the Company's consolidated assets are less than \$500 million, under the Federal Reserve's capital guidelines, our capital adequacy is measured on a bank-only basis as opposed to a consolidated basis. The Bank is also subject to risk-based and leverage capital requirements

adopted by the FDIC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies.

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

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, qualifying noncumulative perpetual preferred stock, and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4% of risk-weighted assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and hybrid capital and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100% of Tier 1 Capital. At December 31, 2008, our ratio of total capital to risk-weighted assets was 15% and our ratio of Tier 1 Capital to risk-weighted assets was 13%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. At December 31, 2008, the Company's leverage ratio was 10%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without reliance on intangible assets. The Federal Reserve considers the leverage ratio and other indicators of capital strength in evaluating proposals for expansion or new activities.

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

Payment of Dividends

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

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

The Georgia Department of Banking and Finance also regulates the Bank's dividend payments and must approve dividend payments that would exceed 50% of the Bank's net income for the prior year. Our payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

When the Company received a capital investment from the United States Department of the Treasury under the Troubled Assets Relief Program ("TARP") Capital Purchase Program on March 6, 2009, the Company became subject to additional limitations on the payment of dividends. These limitations require, among other things, that (i) all dividends for the securities purchased under the TARP Capital Purchase Program be paid before other dividends can be paid and (ii) the Treasury must approve any increases in common dividends for three years following the Treasury's investment.

Restrictions on Transactions with Affiliates

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

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

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

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

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

Because the Company received a capital investment from the United States Department of the Treasury under the TARP Capital Purchase Program on March 6, 2009, the Company is subject to executive compensation limitations. For example, the Company must meet the following standards:

- Ensure that senior executive incentive compensation packages do not encourage excessive risk;
- Subject senior executive compensation to "clawback" if the compensation was based on inaccurate financial information or performance metrics;
- Prohibit any golden parachute payments to senior executive officers;

- Agree not to deduct more than \$500,000 for a senior executive officer's compensation; and
- Agree not to pay any cash incentive bonus to the most highly compensated senior executive officer.

Proposed Legislation and Regulatory Action

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

Effect of Governmental Monetary Policies

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

ITEM 1A. RISK FACTORS

Our allowance for loan losses may not be adequate to cover actual loan losses, which may require us to take a charge to our earnings and adversely impact our financial condition and results of operations.

We maintain an allowance for estimated loan losses that we believe is adequate for absorbing any probable losses in our loan portfolio. Management determines the provision for loan losses based upon an analysis of general market conditions, credit quality of our loan portfolio, and performance of our customers relative to their financial obligations with us. We employ an outside vendor specializing in credit risk management to evaluate our loan portfolio for risk grading, which can result in changes in our allowance for estimated loan losses. The amount of future losses is susceptible to changes in economic, operating, and other conditions, including changes in interest rates that may be beyond our control and such losses may exceed the allowance for estimated loan losses. Although management believes that the allowance for estimated loan losses is adequate to absorb any probable losses on existing loans that may become uncollectible, there can be no assurance that the allowance will prove sufficient to cover actual loan losses in the future. Significant increases to the provision for loan losses may be necessary if material adverse changes in general economic conditions occur or the performance of our loan portfolio deteriorates. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review the allowance for estimated loan losses. If these regulatory agencies require us to increase the allowance for estimated loan losses, it would have a negative effect on our results of operations and financial condition.

We could suffer loan losses from a decline in credit quality.

We could sustain losses if borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and policies, including the establishment and review of the allowance for credit losses that we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

If the value of real estate in our core market were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on our business, financial condition and results of operations.

With most of our loans concentrated in the metro Atlanta, Georgia and Birmingham, Alabama, a decline in local economic conditions could adversely affect the values of our real estate collateral. Consequently, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

In addition to considering the financial strength and cash flow characteristics of borrowers, we often secure loans with real estate collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. Moreover, if the current recession continues, the Company may be required to further increase our loan loss provision, and may experience significantly higher delinquencies and credit losses. An increase in our loan loss provision or increased credit losses would reduce earnings and adversely affect the Company's financial condition. Furthermore, to the extent that real estate collateral is obtained through foreclosure, the costs of holding and marketing the real estate collateral, as well as the ultimate values obtained from disposition, could reduce the Company's earnings and adversely affect the Company's financial condition.

The amount of “other real estate owned” (“OREO”) may increase significantly, resulting in additional losses, and costs and expenses that will negatively affect our operations.

At December 31, 2007, we had a total of \$2.4 million of OREO, and at December 31, 2008, we had a total of \$3.9 million of OREO, reflecting a \$1.5 million increase, or 60%, from 2007 to 2008. This increase in OREO is due, among other things, to the continued deterioration of the residential real estate market and the tightening of the credit market. As the amount of OREO increases, our losses, and the costs and expenses to maintain the real estate likewise will increase. Due to the on-going economic crisis, the amount of OREO may continue to increase throughout 2009. Any additional increase in losses, and maintenance costs and expenses due to OREO may have material adverse effects on our business, financial condition, and results of operations. Such effects may be particularly pronounced in a market of reduced real estate values and excess inventory, which may make the disposition of OREO properties more difficult, increase maintenance costs and expenses, and may reduce our ultimate realization from any OREO sales.

Future impairment losses could be required on various investment securities, which may materially reduce the Company’s and the Bank’s regulatory capital levels.

The Company establishes fair value estimates of securities available-for-sale in accordance with generally accepted accounting principles. The Company’s estimates can change from reporting period to reporting period, and we cannot provide any assurance that the fair value estimates of our investment securities would be the realizable value in the event of a sale of the securities.

A number of factors could cause the Company to conclude in one or more future reporting periods that any difference between the fair value and the amortized cost of one or more of the securities that we own constitutes an other-than-temporary impairment. These factors include, but are not limited to, an increase in the severity of the unrealized loss on a particular security, an increase in the length of time unrealized losses continue without an improvement in value, a change in our intent or ability to hold the security for a period of time sufficient to allow for the forecasted recovery, or changes in market conditions or industry or issuer specific factors that would render us unable to forecast a full recovery in value, including adverse developments concerning the financial condition of the companies in which we have invested.

In addition, depending on various factors, including the fair values of other securities that we hold, we may be required to take additional other-than-temporary impairment charges on other investment securities. Any other-than-temporary impairment charges would negatively affect our regulatory capital levels, and may result in a change to our capitalization category, which could limit certain corporate practices and could compel us to take specific actions.

Additional growth may require us to raise additional capital in the future, but that capital may not be available when it is needed, which could adversely affect our financial condition and results of operations.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our current capital resources will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired.

Our access to additional short term funding to meet our liquidity needs is limited.

We must maintain, on a daily basis, sufficient funds to cover withdrawals from depositors' accounts and to supply new borrowers with funds. We routinely monitor asset and liability maturities in an attempt to match maturities to meet liquidity needs. To meet our cash obligations, we rely on repayments as asset mature, keep cash on hand, maintain account balances with correspondent banks, purchase and sell federal funds, purchase brokered deposits and maintain a line of credit with the Federal Home Loan Bank. If we are unable to meet our liquidity needs through loan and other asset repayments and our cash on hand, we may need to borrow additional funds. Due to the limited availability of liquidity as a result of the subprime mortgage crisis, our access to additional borrowed funds may be limited and we may be required to pay above market rates for additional borrowed funds, which may adversely effect our results of operations.

Changes in monetary policies may have an adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could have an adverse effect on our deposit levels, loan demand or business and earnings.

Our net interest income could be negatively affected by the Federal Reserve's recent interest rate adjustments, as well as by competition in our market area.

As a financial institution, our earnings significantly depend on our net interest income, which is the difference between the interest income that we earn on interest-earning assets, such as investment securities and loans, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings. Therefore, any change in general market interest rates, including changes resulting from changes in the Federal Reserve's fiscal and monetary policies, affects us more than non-financial institutions and can have a significant effect on our net interest income and total income. Our assets and liabilities may react differently to changes in overall market rates or conditions because there may be mismatches between the repricing or maturity characteristics of the assets and liabilities. As a result, an increase or decrease in market interest rates could have material adverse effects on our net interest margin and results of operations.

Since January 2008, in response to the dramatic deterioration of the subprime, mortgage, credit, and liquidity markets, the Federal Reserve has taken action on seven occasions to reduce interest rates by a total of 400 to 425 basis points, which has reduced our net interest income and will likely continue to reduce this income for the foreseeable future. Any reduction in our net interest income will negatively affect our business, financial condition, liquidity, operating results, cash flows and, potentially, the price of our securities. Additionally, in 2009, we expect to have continued margin pressure given these historically low interest rates, along with elevated levels of non-performing assets.

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.

As a bank holding company, we are primarily regulated by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). As a Federal Reserve member bank, our subsidiary bank is primarily regulated by the Federal Reserve Board and the State of Georgia Department of Banking and Finance. Our compliance with Federal Reserve Board and Department of Banking and Finance regulations is costly and may limit our growth and restrict certain of our activities, including payment of

dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements of our regulators.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, the related rules and regulations promulgated by the SEC that currently apply to us and the related exchange rules and regulations, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. As a result, we may experience greater compliance costs.

The FDIC Deposit Insurance assessments that we are required to pay may materially increase in the future, which would have an adverse effect on our earnings.

As an insured depository institution, we are required to pay quarterly deposit insurance premium assessments to the FDIC. These assessments are required to ensure that FDIC deposit insurance reserve ratio is at least 1.15% of insured deposits. Under the Federal Deposit Insurance Act, the FDIC, absent extraordinary circumstances, must establish and implement a plan to restore the deposit insurance reserve ratio to 1.15% of insured deposits, over a five-year period, when the reserve ratio falls below 1.15%. The recent failures of several financial institutions have significantly increased the Deposit Insurance Fund's loss provisions, resulting in a decline in the reserve ratio. The FDIC expects a higher rate of insured institution failures in the next few years, which may result in a continued decline in the reserve ratio.

Beginning on January 1, 2009, there was a uniform seven basis points (annualized) increase to the assessments that banks pay for deposit insurance. The increased assessment rates range from 12 to 50 basis points (annualized) for the first quarter 2009 assessment, which will be owed on June 30, 2009. Beginning on April 1, 2009, the FDIC will modify the risk-based assessments to account for each institution's unsecured debt, secured liabilities and use of brokered deposits. Assessment rates will range from 7 to 77.5 basis points (annualized) starting with the second quarter 2009 assessments, which will be owed on September 30, 2009. In addition, the FDIC has adopted an interim rule to impose an emergency assessment of 20 basis points as of June 30, 2009, which will be owed on September 30, 2009. The FDIC may also impose additional emergency special assessments of up to 10 basis points thereafter if the reserve ratio is estimated to fall to a level that the FDIC believes would adequately affect public confidence or to a level that shall be close to zero or negative at the end of a calendar quarter.

Due to the recent increases in the assessment rates, and the potential for additional increases, we will be required to pay additional amounts to the Deposit Insurance Fund throughout 2009, which could have an adverse effect on our earnings. If the deposit insurance premium assessment rate applicable to us increases again, either because of our risk classification, because of emergency assessments, or because of another uniform increase, our earnings could be further adversely impacted.

An economic downturn, especially one affecting our market areas, could adversely affect our financial condition, results of operations or cash flows.

Our success depends upon the growth in population, income levels, deposits and housing starts in our primary market areas. If the communities in which we operate do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. Unpredictable economic conditions may have an adverse effect on the quality of our loan portfolio and our financial performance. Economic recession over a prolonged period or other economic problems in our market areas could have a material adverse impact on the quality of the loan portfolio and the demand for our

products and services. Future adverse changes in the economies in our market areas may have a material adverse effect on our financial condition, results of operations or cash flows. Further, the banking industry in Georgia and Alabama is affected by general economic conditions such as inflation, recession, unemployment and other factors beyond our control. As a community bank, we are less able to spread the risk of unfavorable local economic conditions than larger or more regional banks. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas even if they do occur.

As a community bank, we have different lending risks than larger banks.

We provide services to our local communities. Our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to small to medium-sized businesses, and, to a lesser extent, individuals which may expose us to greater lending risks than those of banks lending to larger, better-capitalized businesses with longer operating histories. We manage our credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through loan approval and review procedures. We have established an evaluation process designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment and expectations regarding our borrowers, the economies in which we and our borrowers operate, as well as the judgment of our regulators. We cannot assure you that our loan loss reserves will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, financial condition, or results of operations.

Competition from other financial institutions may adversely affect our profitability.

The banking business is highly competitive, and we experience strong competition from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial institutions, which operate in our primary market areas and elsewhere.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established and much larger financial institutions. While we believe we can and do successfully compete with these other financial institutions in our markets, we may face a competitive disadvantage as a result of our smaller size and lack of geographic diversification.

Although we compete by concentrating our marketing efforts in our primary market area with local advertisements, personal contacts and greater flexibility in working with local customers, we can give no assurance that this strategy will be successful.

Our plans for future expansion depend, in some instances, on factors beyond our control, and an unsuccessful attempt to achieve growth could have a material adverse effect on our business, financial condition, results of operations and future prospects.

The investment necessary for branch expansion may negatively impact our efficiency ratio. We may also seek to acquire other financial institutions, or parts of those institutions, though we have no present plans in that regard. Expansion involves a number of risks, including:

- the time and costs of evaluating new markets, hiring experienced local management and opening new offices;
- the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

- we may not be able to finance an acquisition without diluting the interests of our existing shareholders;
- the diversion of our management's attention to the negotiation of a transaction may detract from their business productivity;
- we may enter into new markets where we lack experience; and
- we may introduce new products and services with which we have no prior experience into our business.

The United States Department of the Treasury, as a holder of our preferred stock, has rights that are senior to those of our common stockholders.

We have supported our capital operations by issuing classes of preferred stock to the United States Department of the Treasury under the Troubled Assets Relief Program Capital Purchase Program ("TARP CPP"). As of March 6, 2009, we had outstanding preferred stock issued to the Treasury under the TARP CPP totaling \$7.5 million. The preferred stock has dividend rights that are senior to our common stock; therefore, we must pay dividends on the preferred stock before we can pay any dividends on our common stock. In the event of our bankruptcy, dissolution, or liquidation, the Treasury must be satisfied before we can make any distributions to our common stockholders. Our recent results may not be indicative of our future results, and may not provide guidance to assess the risk of an investment in our common stock.

Our agreement with the United States Department of the Treasury under the Troubled Assets Relief Program Capital Purchase Program ("TARP CPP") is subject to unilateral change by the Treasury, which could adversely affect our business, financial condition, and results of operations.

Under the TARP CPP, the Treasury may unilaterally amend the terms of its agreement with us in order to comply with any changes in federal law. We cannot predict the effects of any of these changes and of the associated amendments.

Our ability to pay dividends is limited and we may be unable to pay future dividends. As a result, capital appreciation, if any, of our common stock may be your sole opportunity for gains on your investment for the foreseeable future.

We make no assurances that we will pay any dividends in the future. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, regulatory restrictions and other factors that our Board of Directors may deem relevant. The holders of our common stock are entitled to receive dividends when, and if declared by our Board of Directors out of funds legally available for that purpose. As part of our consideration to pay cash dividends, we intend to retain adequate funds from future earnings to support the development and growth of our business. In addition, our ability to pay dividends is restricted by federal policies and regulations. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. Further, our principal source of funds to pay dividends is cash dividends that we receive from the bank.

In addition, because we have participated in the United States Department of the Treasury's Troubled Assets Relief Program Capital Purchase Program ("TARP CPP") as of March 6, 2009, our ability to pay dividends on common stock is further limited. Specifically, we may not pay dividends on common stock unless all dividends have been paid on the securities issued to the Treasury under the

TARP CPP. The TARP CPP also restricts our ability to increase the amount of dividends we may pay on common stock, which potentially could impact the market value of our common stock.

The Emergency Economic Stabilization Act of 2008 (“EESA”) or other governmental actions may not stabilize the financial services industry.

The EESA, which was signed into law on October 3, 2008, is intended to alleviate the financial crisis affecting the U.S. banking system. A number of programs are being developed and implemented under EESA. The EESA may not have the intended effect, however, and as a result, the condition of the financial services industry could decline instead of improve. The failure of the EESA to improve the condition of the U.S. banking system could significantly adversely affect our access to funding or capital, the trading price of our stock, and other elements of our business, financial condition, and results of operations.

In addition to EESA, a variety of legislative, regulatory, and other proposals have been discussed or may be introduced in an effort to address the financial crisis. Depending on the scope of such proposals, if they are adopted and applied to the Company, our financial condition, results of operations or liquidity could, directly or indirectly, benefit or be adversely affected in a manner that could be material to our business.

Our recent results may not be indicative of our future results, and may not provide guidance to assess the risk of an investment in our common stock.

We may not be able to sustain our historical rate of growth or may not even be able to grow our business at all. In addition, our recent and rapid growth may distort some of our historical financial ratios and statistics. In the future, we may not have the benefit of several recently favorable factors, such as a generally increasing interest rate environment, a strong residential mortgage market or the ability to find suitable expansion opportunities. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

Confidential customer information transmitted through the Bank’s online banking service is vulnerable to security breaches and computer viruses, which could expose the Bank to litigation and adversely affect its reputation and ability to generate deposits.

The Bank provides its customers with the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. The Bank’s network could be vulnerable to unauthorized access, computer viruses, phishing schemes, and other security problems. The Bank may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that the Bank’s activities or the activities of its clients involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in the Bank’s systems and could adversely affect its reputation and its ability to generate deposits.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no written comments from the Commission staff regarding our periodic reports or current reports under the Act which remain unresolved.

ITEM 2. DESCRIPTION OF PROPERTIES

The Bank's main office building is located at 75 Piedmont Avenue, N.E., Atlanta, Georgia. In addition to its main branch, the Bank also operates nine other branch offices: the office located at 2727 Panola Road, Lithonia, Georgia, which is owned by the Bank; the office located at 965 M.L. King Jr. Drive, Atlanta, Georgia, which is owned by the bank; the office located at 2840 East Point Street, East Point, Georgia, which is owned by the bank; the office located at 2592 S. Hairston Road, Decatur, Georgia, which is owned by the bank; the office located at Rockbridge Plaza, 5771 Rockbridge Road, Stone Mountain, Georgia, which is owned by the Bank; the office located at 3705 Cascade Road, Atlanta, Georgia, which is owned by the bank; the office located at 3172 Macon Road, Columbus, Georgia, is leased; the office located at 1700 Third Avenue North, Birmingham, Alabama, which is owned by the Bank; and the office located at 213 Main Street, Eutaw, Alabama, which is owned by the Bank. The Bank is in the process of purchasing an additional branch office located at 3065 Stone Mountain Street, Lithonia, Georgia. In the opinion of management, all of these properties are adequately insured.

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

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or of which any of its properties are subject; nor are there material proceedings known to the Company to be contemplated by any governmental authority; nor are there material proceedings known to the Company, pending or contemplated, in which any director, officer or affiliate or any principal security holder of the Company, or any associate of any of the foregoing, is a party or has an interest adverse to the Company.

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

No matter was submitted to a vote of security holders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock, \$1.00 par value ("Common Stock"), is traded on the Nasdaq Bulletin Board, but there is limited trading. The following table sets forth high and low bid information for the Common Stock for each of the quarters in which trading has occurred since January 1, 2007. The prices set forth below reflect only information that has come to management's attention and do not include retail mark-ups, markdowns or commissions and may not represent actual transactions.

<u>Quarter Ended:</u>	<u>High Bid</u>	<u>Low Bid</u>
Fiscal year ended December 31, 2008		
March 31, 2008	\$ 9.00	\$ 8.10
June 30, 2008	\$10.25	\$ 8.16
September 30, 2008	\$ 8.25	\$ 6.00
December 31, 2008	\$ 6.00	\$ 2.50
Fiscal year ended December 31, 2007		
March 31, 2007	\$11.70	\$10.20
June 30, 2007	\$11.00	\$10.35
September 30, 2007	\$11.00	\$10.00
December 31, 2007	\$10.50	\$ 9.01

As of March 26, 2009, there were approximately 1,361 holders of record of Common Stock. The Company also has outstanding 90,000 shares of Non-Voting Common Stock, all of which is held by one shareholder.

The Company paid an annual cash dividend of \$0.19 per share in 2008 and in 2007. The Company's dividend policy in the future will depend on the Bank's earnings, capital requirements, financial condition, and other factors considered relevant by the Board of Directors of the Company. See "Description of Business—Bank Regulation."

The Company issued 13,997 shares of unregistered common stock from treasury stock to the Company's Employee Stock Purchase Plan during 2008 at an average price of \$6.41 per share.

The Company purchased 6,393 shares of its common stock at an average price of \$6.89 per share during 2008.

ITEM 6. SELECTED FINANCIAL DATA

This information is not required since the Company qualifies as a smaller reporting company.

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

The Company

Citizens Bancshares Corporation (collectively with its subsidiary, the "Company") is a holding company that provides a full range of commercial banking services to individual and corporate customers through its wholly owned subsidiary, Citizens Trust Bank (the "Bank"). The Bank operates under a state charter and serves its customers through its home office and six full-service branches in metropolitan Atlanta, one full-service branch in Columbus, Georgia, one full-service branch in Birmingham, Alabama, and one full-service branch in Eutaw, Alabama. On March 27, 2009, the Bank completed its purchase of an additional full-service branch in Lithonia, Georgia. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Forward Looking Statements

In addition to historical information, this Annual Report on Form 10-K may contain forward-looking statements. For this purpose, any statements contained herein, including documents incorporated by reference, that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties. Without limiting the foregoing, the words "intend," "seek," "estimate," "believe," "anticipates," "plan," "expects," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Forward-looking statements are based on current management expectations and, by their nature, are subject to risk and uncertainties because of the possibility of changes in underlying factors and assumptions.

Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in Item 1A of Part I of this report and include risks discussed in this section of the Annual Report and in other periodic reports that we file with the SEC. Those factors include: difficult market conditions have adversely affected our industry; current levels of market volatility are unprecedented; the soundness of other financial institutions could adversely affect us; there can be no assurance that recently enacted legislation, or any proposed federal programs, will stabilize the U.S. financial system, and such legislation and programs may adversely affect us; the impact on us of recently enacted legislation, in particular the EESA and its implementing regulations, and actions by the FDIC, cannot be predicted at this time; credit risk; weakness in the economy and in the real estate market, including specific weakness within our geographic footprint, has adversely affected us and may continue to adversely affect us; weakness in the real estate market, including the secondary residential mortgage loan markets, has adversely affected us and may continue to adversely affect us; as a financial services company, adverse changes in general business or economic conditions could have a material adverse effect on our financial condition and results of operations; changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital or liquidity; the fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings; clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding; consumers may decide not to use banks to complete their financial transactions, which could affect net income; negative public opinion could damage our reputation and adversely impact our business and revenues; we rely on other companies to provide key components of our business infrastructure; we rely on our systems, employees, and certain counterparties, and certain failures could materially adversely affect our operations; we depend on the accuracy and completeness of information about clients and counterparties; regulation by federal and state agencies could adversely affect our business, revenue, and profit margins; competition in the financial services industry is intense and could result in losing business or reducing margins; future legislation could harm our competitive position; maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services.

These factors should be considered in evaluating the "forward-looking statements" and undue reliance should not be placed on such statements. The Company undertakes no obligation to, nor does it intend to, update forward-looking statements to reflect circumstances or events that occur after the date hereof or to reflect the occurrence of unanticipated events. All written or oral forward-looking

statements attributable to the Company are expressly qualified in the entirety by these cautionary statements.

Critical Accounting Policies

Our significant accounting policies are described in detail in Note 1, “Summary of Significant Accounting Policies,” to the Consolidated Financial Statements and are integral to understanding the Management’s Discussion and Analysis of Financial Condition and Results of Operations. We have identified certain accounting policies as being critical because (1) they require our judgment about matters that are highly uncertain and (2) different estimates that could be reasonably applied would result in materially different assessments with respect to ascertaining the valuation of assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability, or reducing a liability. Our accounting and reporting policies are in accordance with U.S. GAAP, and they conform to general practices within the financial services industry. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner.

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

Investment Securities—The Company classifies investments in one of three categories based on management’s intent upon purchase: held to maturity securities which are reported at amortized cost, trading securities which are reported at fair value with unrealized holding gains and losses included in earnings, and available for sale securities which are recorded at fair value with unrealized holding gains and losses included as a component of accumulated other comprehensive income. The Company had no investment securities classified as trading securities during 2008, 2007, or 2006.

Premiums and discounts on available for sale and held to maturity securities are amortized or accreted using a method which approximates a level yield. Amortization and accretion of premiums and discounts is presented within investment securities interest income on the Consolidated Statements of Income.

Gains and losses on sales of investment securities are recognized upon disposition, based on the adjusted cost of the specific security. A decline in market value of any security below cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security. The determination of whether an other-than-temporary impairment has occurred involves significant assumptions, estimates, changes in economic conditions and judgment by management. There was no other-than-temporary impairment for securities recorded during 2008, 2007 or 2006.

Loans Receivable and Allowance for Loan Losses—Loans are reported at principal amounts outstanding less unearned income and the allowance for loan losses. Interest income on loans is recognized on a level yield basis. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. Premiums and discounts on loans purchased are amortized and accreted using the level yield method over the estimated remaining life of the loan purchased. The accretion and amortization of loan fees, origination costs, and premiums and discounts are presented as a component of loan interest income on the Consolidated Statements of Income.

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

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

The Company provides for estimated losses on loans receivable when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. For loans that are pooled for purposes of determining necessary provisions, estimates are based on loan types, history of charge-offs, and other delinquency analyses. Therefore, the value used to determine the provision for losses is subject to the reasonableness of these estimates. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. This assessment is made in the context of historical losses as well as existing economic conditions, performance trends within specific portfolio segments, and individual concentrations of credit.

Loans are charged-off against the allowance when, in the opinion of management, such loans are deemed to be uncollectible and subsequent recoveries are added to the allowance.

Foreclosed Real Estate—Foreclosed real estate is reported at the lower of cost or fair value less estimated disposal costs, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. Any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is treated as a charge-off against the allowance for loan losses. Any subsequent declines in value are charged to earnings.

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

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

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

Recent Market Developments

During 2008, macro-economic conditions negatively impacted liquidity and credit quality across the financial markets, especially in the consumer sector, as the U.S. economy experienced a recession. The National Bureau of Economic Research published a report in December indicating that the U.S. has been in a recession since December 2007 as indicated most prominently, in their view, by the declining labor market since that time. Since December 2007, in addition to deterioration in the labor market, the recession has caused rising unemployment, volatile equity markets, and declining home values, all of which are weighing negatively on consumer sentiment as evidenced by weak spending throughout the year, especially during the fourth quarter. During the year, financial markets experienced unprecedented events, and the market exhibited extreme volatility and evaporating liquidity as credit quality concerns, sharp fluctuations in commodity prices, volatility in rate indices such as Prime and LIBOR, and illiquidity persisted. Concerns regarding increased credit losses from the weakening economy negatively affected the capital and earnings levels of most financial institutions. In addition, certain financial institutions failed or merged with stronger institutions and two government sponsored enterprises entered into conservatorship with the U.S. government. Liquidity in the debt markets was extremely low despite the Treasury and Federal Reserve efforts to inject capital and liquidity into financial institutions, and as a result, asset values continued to be under pressure.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the Emergency Economic Stabilization Act of 2008 (the EESA”) was signed into law on October 3, 2008. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The U.S. Treasury has since injected capital into many financial institutions, under the Troubled Asset Relief Program Capital Purchase Program (the CPP”). On March 6, 2009, the Company entered into a Securities Purchase Agreement with the U.S. Treasury pursuant to which, among other things, the Company sold preferred stock to the U.S. Treasury for an aggregate purchase price of \$7.5 million. Under the terms of the CPP, the Company is prohibited from increasing dividends on its common stock, and from making certain repurchases of equity securities, including its common stock, without the U.S. Treasury’s consent. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including the Company’s common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

On October 3, 2008, the FDIC increased its insurance coverage limits on all deposits from \$100,000 to \$250,000 per account until December 31, 2009.

On October 14, 2008, the systemic risk exception” to the FDIC Act was enacted, enabling the FDIC to temporarily provide a 100% guarantee of the senior unsecured debt of all FDIC-insured institutions and their holding companies, as well as deposits in noninterest-bearing transaction deposit accounts and certain interest-bearing checking accounts (for which the rate paid will not exceed 50 basis points) under a Temporary Liquidity Guarantee Program (TLGP”) through December 31, 2009. Coverage under the TLGP is available for 30 days without charge (subsequently extended to December 5, 2008) and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for noninterest-bearing transaction deposits and certain interest-bearing checking accounts (for which the rate paid will not exceed 50 basis points).

The Company opted into the TLGP with respect to noninterest-bearing deposit accounts and certain interest-bearing checking accounts (for which the rate paid will not exceed 50 basis points) and the debt guarantee program in December 2008. The Company opted out of the Temporary Liquidity Guarantee Program with respect to certain non-guarantee senior unsecured obligations.

In December, the Federal Reserve (“Fed”) took unprecedented action in lowering the federal funds rate by 75 basis points to a targeted range of zero to one-quarter percent. The Board of Governors also lowered the discount rate 75 basis points to one-half percent. This action was the seventh rate cut of the year causing the Prime rate to decline 400 basis points since January 1, 2008 to 3.25% at year end. Further, the Fed increased its Term Auction Facility (“TAF”) program offerings during the year by \$445 billion, which are similar borrowing instruments to term federal funds. In addition, due to the continuing strain on the financial markets, the Fed has offered numerous temporary liquidity facilities in an effort to stabilize credit markets and improve the access to credit of businesses and households.

On February 10, 2009, the U.S. Treasury announced the Financial Stability Plan (FSP”), which, among other things, proposes to establish a new Capital Assistance Program (CAP”) through which eligible banking institutions will have access to U.S. Treasury capital as a bridge to private capital until market conditions normalize, and extends the TLGP to October 31, 2009. As a complement to the CAP, a new Public-Private Investment Fund on an initial scale of up to \$500 billion, with the potential to expand up to \$1 trillion, was announced to catalyze the removal of legacy assets from the balance sheets of financial institutions. This proposed fund will combine public and private capital with government financing to help free up capital to support new lending. In addition, the existing Term Asset-Backed Securities Lending Facility (TALF”) would be expanded (up to \$1 trillion) in order to reduce credit spreads and restart the securitized credit markets that in recent years supported a substantial portion of lending to households, students, small businesses, and others. Furthermore, the FSP proposes a new framework of governance and oversight to help ensure that banks receiving funds are held responsible for appropriate use of those funds through stronger conditions on lending, dividends and executive compensation along with enhanced reporting to the public.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Stimulus Bill”) was signed into law. The Stimulus Bill is intended to provide tax breaks for individuals and businesses, direct aid to distressed states and individuals, and infrastructure spending. The Stimulus Bill also limits executive compensation at companies that have received or will receive CPP funds based on a sliding scale of funds received. Also in February 2009, the U.S. Treasury announced the Homeowner Affordability and Stability Plan (HASP”), which proposes to provide refinancing for certain homeowners, to support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac, and to establish a Homeowner Stability Initiative to reach at-risk homeowners. Among other things, the Homeowner Stability Initiative would offer monetary incentive to mortgage servicers and mortgage holders for certain modifications of at-risk loans, and would establish an insurance fund designed to reduce foreclosures.

It is not clear at this time what impact the EESA, the CPP, the TLGP, the FSP, the Stimulus Bill, the HASP, or other liquidity and funding initiatives will have on the financial markets and the other difficulties described above, including the high levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Failure of these programs to address the issues noted above could have an adverse effect on the Company and its business.

Selected Financial Data

The following selected financial data for Citizens Bancshares Corporation and subsidiary should be read in conjunction with the Consolidated Financial Statements and related Notes appearing in another section of this Annual Report.

	Years ended December 31,		
	2008	2007	2006
	(amounts in thousands, except per share data and financial ratios)		
Statement of income data:			
Net interest income	\$ 13,555	\$ 14,003	\$ 14,275
Provision for loan losses	\$ 2,489	\$ —	\$ 30
Net income	\$ 1,023	\$ 2,856	\$ 3,003
Per share data:			
Net income—basic	\$ 0.49	\$ 1.37	\$ 1.44
Book value	\$ 16.03	\$ 15.83	\$ 14.46
Cash dividends declared	\$ 0.19	\$ 0.19	\$ 0.17
Balance sheet data:			
Loans, net	\$214,964	\$238,211	\$221,112
Deposits	\$281,913	\$279,599	\$269,020
Notes payable	\$ 240	\$ 340	\$ 340
Advances from Federal Home Loan Bank	\$ 28,713	\$ 18,944	\$ 26,746
Junior subordinated debentures	\$ —	\$ —	\$ 5,155
Total assets	\$348,095	\$338,384	\$335,185
Average stockholders' equity	\$ 33,128	\$ 30,927	\$ 28,173
Average assets	\$342,853	\$336,862	\$327,736
Ratios:			
Net income to average assets	0.30%	0.85%	0.92%
Net income to average stockholders' equity	3.09%	9.23%	10.66%
Dividend payout ratio	38.90%	13.90%	11.85%
Average stockholders' equity to average assets	9.66%	9.18%	8.60%

In 2008, the Company reported net income of \$1,023,000, a 64 percent decrease over net income of \$2,856,000 reported in 2007, which represented a 5 percent decrease over 2006 net income. The year over year decrease in 2008 net income is primarily related to the \$2,489,000 provision for loan losses the Company recorded due to a decline in credit quality of certain loans receivables. Basic and diluted earnings per share were \$0.49 and \$1.37 for 2008 and 2007, respectively. Pretax income for 2008 decreased by \$2,610,000 compared to 2007, representing a 71 percent decline to \$1,063,000. Income tax expense decreased \$777,000 or 95 percent to \$40,000 over the same period.

The Company has maintained its strong capital position during this unprecedented financial crisis that has affected the banking system and financial markets. The ratio of average stockholders' equity to average assets is one measure used to determine capital strength. The Company's average stockholders' equity to average assets ratio for 2008, 2007 and 2006 was 9.66 percent, 9.18 percent and 8.60 percent, respectively. Another key capital ratio, the Company's net income to average stockholders' equity (return on equity), was 3.09 percent, 9.23 percent and 10.66 percent in 2008, 2007 and 2006, respectively.

Financial Condition

At December 31, 2008, the Company had total assets of \$348,095,000 and stockholders' equity was \$33,658,000, representing 10 percent of total assets. Book value per common share increased to \$16.03 at December 31, 2008 compared to \$15.83 at December 31, 2007.

Interest-bearing deposits with banks increased by \$8,754,000 to \$9,276,000 at December 31, 2008 compared to last year. Interest-bearing deposits with banks primarily represent funds maintained on deposit at the Federal Home Loan Bank (FHLB). These funds fluctuate daily and are used to manage the Company's liquidity and borrowing position at the FHLB

Outstanding loans receivable at December 31, 2008 were \$210,306,000, representing a decrease of \$25 million or 11 percent compared to 2007. This decrease is primarily due to the U.S. economy entering a recession, deterioration in the labor market, rising unemployment, and declining home values, all of which has weighed negatively on potential customers sentiment in the Company's market areas to seek new loans for business and personal purposes. Consequently, total loan production for the year declined. Also, as a strategic risk decision, the Company discontinued several borrowing relationships due to the continuing deterioration in the real estate market and recessionary pressures. The Company's loan officers are spending more time with their loan portfolios to spot deterioration and intervene timely to curtail significant losses.

As a result of these difficult economic times, to provide assistance to our current and future customers the Company, in the fourth quarter of 2008, rolled out its new "Small Dollar Loan" program. The Small Dollar Loan program allows a consumer to borrow up to \$1,500 in accordance with the FDIC Affordable Loan program and has been well received.

The \$25 million decrease in loans receivable mentioned above was offset by a \$26 million increase in investment securities and other investments to maintain the Company's net interest margin. The major components of the loan portfolio were commercial loans, commercial real estate loans, and consumer loans (including both direct and indirect loans). Substantially all of the loans were to borrowers located in the Company's market areas in Georgia and Alabama.

At December 31, 2008, Foreclosed real estate, net was \$3,874,000 an increase of \$1,451,000 compared to December 31, 2007. This increase is due to the adverse conditions in the current real estate market as market value of real estate properties in the Company's target markets continues to decline.

Cash value of life insurance, a comprehensive compensation program for directors and certain senior managers of the Company, increased \$336,000 or 3 percent at December 31, 2008. The increase is due to the earnings on the premiums paid over the life of the insurance contract.

Investment Portfolio

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

At December 31, 2008 and 2007, investment securities comprised approximately 27 percent and 20 percent of the Company's assets, respectively. The investment portfolio had a fair market value of \$92,658,000 and an amortized cost of \$92,431,000, resulting in a net unrealized gain of \$227,000 at December 31, 2008. For the same period in 2007, the investment portfolio had a fair market value of \$67,115,000 and an amortized cost of \$66,980,000, resulting in a net unrealized gain of \$135,000.

Total investments classified as available for sale had a fair value of \$87,961,000 (\$87,847,000 amortized cost) at December 31, 2008, compared to a fair value of \$59,677,000 (\$59,606,000 amortized cost) at December 31, 2007. Investments classified as held to maturity at December 31, 2008 had an amortized cost of \$4,583,000 (\$4,697,000 estimated fair value), compared to an amortized cost \$7,374,000 (\$7,438,000 estimated fair value) at December 31, 2007.

The following table shows the contractual maturities of all investment securities at December 31, 2008 and the weighted average yields (on a fully taxable basis assuming a 34 percent tax rate) of such securities. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (amounts in thousands, except yields):

	Maturing							
	Within 1 Year		Between 1 and 5 Years		Between 5 and 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-backed securities(a)	\$ 3	4.41%	\$1,113	3.25%	\$ 3,355	4.72%	\$62,705	5.04%
State, county, and municipal securities	—	—	5,387	4.48%	13,449	6.01%	6,532	6.28%
Totals	<u>\$ 3</u>		<u>\$6,500</u>		<u>\$16,804</u>		<u>\$69,237</u>	

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

Other investments consist of Federal Home Loan Bank and Federal Reserve Bank stock, which are restricted and have no readily determined market value. The Company is required to maintain an investment in the FHLB and FRB as part of its membership conditions. The level of investments is determined by the amount of outstanding advances at the FHLB and at the FRB it is 6 percent of the par value of the bank's common stock outstanding and paid-in-capital. These investments are carried at cost and increased by \$446,000 to \$2,287,000 in 2008 compared to 2007.

Nonperforming Assets

The Company's credit risk management system is defined by policies approved by the Board of Directors that govern the risk underwriting, portfolio monitoring, and problem loan administration processes. Adherence to underwriting standards is managed through a multi-layered credit approval process and after-the-fact review by credit risk management of loans approved by lenders. Through continuous review by the credit risk manager, reviews of exception reports, and ongoing analysis of asset quality trends, compliance with underwriting and loan monitoring policies is closely supervised. The administration of problem loans is driven by policies that require written plans for resolution and periodic meetings with credit risk management to review progress. Credit risk management activities are monitored by the Loan Committee of the Board, which meets monthly to review credit quality trends, new large credits, loans to insiders, large problem credits, credit policy changes, and reports on independent credit reviews.

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

prospects for the resumption of principal and interest payments. Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal or when loans become contractually in default for 90 days or more as to either interest or principal. The accrual of interest on some loans, however, may continue even though they are 90 days past due if the loan is well secured, in the process of collection and management deems it appropriate. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged-off against interest income on loans unless management believes that the accrued interest is recoverable through the liquidation of collateral.

Nonperforming assets totaled \$20,072,000 as of December 31, 2008, an increase of \$12,388,000, or 161 percent, from December 31, 2007. Nonperforming loans as of December 31, 2008 were \$16,178,000, an increase of \$10,917,000, or 207 percent, from December 31, 2007. The increase in nonperforming assets was primarily attributable to accelerated market deterioration in commercial real estate and residential housing loans in the Company's market areas.

Nonperforming assets represents 9.17 percent of loans, net of unearned income, and real estate acquired through foreclosure at December 31, 2008 as compared to 3.19 percent at December 31, 2007.

The table below presents a summary of the Company's nonperforming assets at December 31, 2008 and 2007.

	December 31, 2008	December 31, 2007
	(in thousands, except financial ratios)	
Nonperforming assets:		
Nonperforming loans:		
Nonaccrual loans	\$16,178	\$5,261
Past-due loans of 90 days or more	—	—
Nonperforming loans	16,178	5,261
Real estate acquired through foreclosure	3,874	2,423
Total nonperforming assets	<u>\$20,052</u>	<u>\$7,684</u>
Ratios:		
Nonperforming loans to loans, net of unearned income . .	<u>7.53%</u>	<u>2.21%</u>
Nonperforming assets to loans, net of unearned income and real estate acquired through foreclosure	<u>9.16%</u>	<u>3.19%</u>
Nonperforming assets to total assets	<u>5.76%</u>	<u>2.27%</u>
Allowance for loan losses to nonperforming loans	<u>28.80%</u>	<u>54.12%</u>
Allowance for loan losses to nonperforming assets	<u>23.23%</u>	<u>37.06%</u>

Provision and Allowance for Loan Losses

The Company provides for estimated losses on loans receivable when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. For loans that are pooled for purposes of determining the necessary provisions, estimates are based on loan types, history of charge-offs, and other delinquency analyses as prescribed under SFAS No. 114 "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118 "Accounting by Creditors for Impairment of a Loan—Income

Recognition and Disclosures,” and pooled loans and leases as prescribed under SFAS No. 5, “Accounting for Contingencies.

Therefore, the value used to determine the provision for losses is subject to the reasonableness of these estimates and management’s judgment. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. On a semi-annual basis an independent review of the adequacy of allowance for loan losses is performed. This assessment is made in the context of historical losses as well as existing economic conditions, and individual concentrations of credit.

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

The provision for loan losses is the periodic cost of increasing the allowance or reserve for the estimated losses on loans in the portfolio. A charge against operating earnings is necessary to maintain the allowance for loan losses at an adequate level as determined by management. The provision is determined based on growth of the loan portfolio, the amount of net loans charged-off, and management’s estimation of potential future loan losses based on an evaluation of loan portfolio risks, adequacy of underlying collateral, and economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Due to the unprecedented financial crisis encountered in 2008 which resulted in deterioration of liquidity and collateral value, the Company experienced elevated losses in its commercial real estate and residential housing loans portfolio during the second and fourth quarter of 2008. As a result, for the year ended December 31, 2008, the provision for loan losses charged against operating earnings increased by \$2,489,000, or 100 percent, from the year ended December 31, 2007. Based on the Company’s evaluation, a provision for loan losses was not recorded in 2007.

The Company’s allowance for loan losses was approximately \$4,659,000 or 2.17 percent of loans receivable, net of unearned income at December 31, 2008, and \$2,848,000 or 1.20 percent of loans receivable, net of unearned income at December 31, 2007. Management believes that the allowance for loan losses at December 31, 2008 is adequate to provide for potential loan losses given past experience and the underlying strength of the loan portfolio.

The following table summarizes loans, changes in the allowance for loan losses arising from loans charged off, recoveries on loans previously charged off by loan category, and additions to the allowance

which have been charged to operating expense as of and for the twelve months ended December 31, 2008 and 2007 (amount in thousands, except financial ratios):

	<u>2008</u>	<u>2007</u>
Loans, net	\$214,964	\$238,211
Average loans, net of unearned income, discounts and the allowance for loan losses	\$218,660	\$223,687
Allowance for loan losses at the beginning of period	\$ 2,848	\$ 3,109
Loans charged-off:		
Commercial, financial, and agricultural	118	53
Real estate—loans	204	242
Installment loans to individuals	470	238
Total loans charged-off	<u>792</u>	<u>533</u>
Recoveries of loans previously charged off:		
Commercial, financial, and agricultural	24	70
Real estate—loans	41	130
Installment loans to individuals	49	72
Total loans recovered	<u>114</u>	<u>272</u>
Net loans charged-off	678	261
Additions to allowance for loan losses charged to operating expense	2,489	—
Allowance for loan losses at period end	<u>\$ 4,659</u>	<u>\$ 2,848</u>
Ratio of net loans charged-off to average loans, net of unearned income and the allowance for loan losses	<u>0.31%</u>	<u>0.12%</u>
Ratio of allowance for loan losses to loans, net of unearned income	<u>2.17%</u>	<u>1.20%</u>

Deposits

Deposits are the Company’s primary source of funding loan growth. Total deposits at December 31, 2008 increased by \$2,314,000 or 1 percent, to \$281,913,000. On an average basis, total average deposits increased by \$9,634,000 or 3 percent to \$294,700,000 in 2008, driven by average interest-bearing deposits which increased by \$9,182,000 or 4 percent to \$234,316,000. Average noninterest-bearing deposits were flat for the year at \$60,385,000, increasing by \$452,000.

The increase is attributed to the Company’s continue sale efforts, which places specific emphasis on deposit growth to reduce its reliance upon wholesale funding sources. The Company also has Corporate and Governmental customers that have significant interest-bearing deposits with the Company; and their deposit and withdrawal activities can significantly impact the Company’s deposit balances.

The Company is participating in the Temporary Liquidity Guarantee Program’s full coverage of noninterest-bearing deposit transaction accounts and certain interest-bearing checking accounts (for which the rate paid will not exceed 50 basis points) regardless of dollar amount through December 31, 2009. In addition, the Company participates in Certificate of Deposit Account Registry Services (CDARS’), a program that allows its customers the ability to benefit from full FDIC insurance on CD investments of up to \$50 million.

For additional information about the Company's deposit maturities and composition, see Note 5, Deposits, in the Notes to Consolidated Financial Statements.

Other Borrowed Funds

While the Company continues to emphasize funding earning asset growth through deposits, it relies on other borrowings as a supplemental funding source and to manage its interest rate sensitivity. During 2008, the Company's average borrowed funds decreased by \$5,909,000 to \$11,394,000 from \$17,303,000 in 2007. The average interest rate on other borrowings was 2.5 percent in 2008 and 5.9 percent in 2007. Other borrowings consist of Federal funds purchased, short-term borrowings and Federal Home Loan Bank (the "FHLB") advances. The Company's \$5 million pooled trust preferred securities, used to acquire another financial institution, were redeemed on June 26, 2007. The Bank had an average outstanding advance from the FHLB of \$10,920,000 in 2008 and \$13,974,000 in 2007. These advances are collateralized by FHLB stock, a blanket lien on the Bank's 1-4 and multi-family mortgages and commercial real estate loans.

For additional information regarding the Company's other borrowings, see Note 6, Other Borrowings, in the Notes to Consolidated Financial Statements.

Disclosure about Contractual Obligations and Commitments

The following tables identify the Company's aggregated information about contractual obligations and loan commitments at December 31, 2008.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				<u>Total</u>
	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>After 5 years</u>	
FHLB advances	\$28,350,000	\$ —	\$ —	\$ 362,560	\$28,712,560
Notes payable	239,647	—	—	—	239,647
Operating leases	467,675	969,529	1,028,589	1,333,972	3,799,765
	<u>\$29,057,322</u>	<u>\$969,529</u>	<u>\$1,028,589</u>	<u>\$1,696,532</u>	<u>\$32,751,972</u>

<u>Other Commitments</u>	<u>Amount of Commitment Expiration Per Period</u>				<u>Total</u>
	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>After 5 years</u>	
Commitments to extend credit	\$25,005,219	\$5,655,782	\$7,785,280	\$1,728,719	\$40,175,000
Commercial letters of credit	3,903,000	—	—	—	3,903,000
	<u>\$28,908,219</u>	<u>\$5,655,782</u>	<u>\$7,785,280</u>	<u>\$1,728,719</u>	<u>\$44,078,000</u>

Liquidity Management

Liquidity is the ability of the Company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Company's ability to meet the day-to-day cash flow requirements of its customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs.

Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves. Additionally, the Company requires cash for various operating needs including: dividends to shareholders; business combinations; capital injections to its subsidiary; the servicing of debt; and the payment of general corporate expenses.

Liquidity is managed at two levels. The first is the liquidity of the parent company, which is the holding company that owns Citizens Trust Bank, the banking subsidiary. The second is the liquidity of the banking subsidiary. The management of liquidity at both levels is essential because the parent company and banking subsidiary each have different funding needs and sources, and each are subject to certain regulatory guidelines and requirements. Through the Asset Liability Committee (ALCO”), the CFO is responsible for planning and executing the funding activities and strategy.

The Company has access to various capital markets. However, the primary source of liquidity for the Company is dividends from its bank subsidiary. The Georgia Department of Banking and Finance regulates the dividend payments and must approve dividend payments that exceed 50 percent of the Bank’s prior year net income. The payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The amount of dividends available from the Bank without prior approval from the regulators for payment in 2008 is approximately \$603,000. The Company does not anticipate any liquidity requirements in the near future that it will not be able to meet.

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

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

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

Regarding the Temporary Liquidity Guarantee Programs offered by the FDIC, the Company opted into the program providing full coverage (regardless of dollar amount) of noninterest-bearing deposit transaction accounts and certain interest-bearing checking accounts (for which the rate paid will not exceed 50 basis points) through December 31, 2009. This program will further stabilize and strengthen our liquidity position.

Capital Resources

Stockholders’ equity increased by \$525,000 or 2 percent during 2008. This increase is largely due to the 2 percent growth in retained earnings of \$394,000 as a result of \$1,023,000 in net income in 2008.

Dividends of \$398,000 were paid on the Company’s common stock in 2008, consistent with the \$397,000 dividends paid in 2007. The annual dividend payout rate was \$0.19 per common share in 2008 and 2007. The dividend payout ratio was 39 percent and 14 percent for 2008 and 2007 respectively. The Company intends to continue a dividend payout ratio that is competitive in the banking industry while maintaining an adequate level of retained earnings to support continued growth.

A strong capital position, which is vital to the continued profitability of the Company, also promotes depositor and investor confidence and provides a solid foundation for the future growth of the organization. The Company has satisfied its capital requirements principally through the retention

of earnings. The ratio of average shareholders' equity as a percentage of total average assets is one measure used to determine capital strength. The Company continues to maintain a strong capital position as its ratio of average stockholders' equity to average assets for 2008 was 9.66 percent compared with 9.18 percent in 2007.

In addition to the capital ratios mentioned above, banking industry regulators have defined minimum regulatory capital ratios that the Company and the Bank are required to maintain. These risk-based capital guidelines take into consideration risk factors, as defined by the regulators, associated with various categories of assets, both on and off of the balance sheet. The minimum guideline for the ratio of total capital to risk-weighted assets is 8 percent. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiary, qualifying noncumulative perpetual preferred stock, and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4 percent of risk-weighted assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and hybrid capital and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100 percent of Tier 1 Capital. Also, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and other specified intangible assets, of 3 percent for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies, including the Company, generally are required to maintain a leverage ratio of at least 4 percent.

At December 31, 2008 our ratio of total capital to risk-weighted assets was 15 percent, our ratio of Tier 1 Capital to risk-weighted assets was 13 percent and our leverage ratio was 10 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the principal component of a financial institution's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as volume and mix changes in earning assets and interest bearing liabilities can materially impact net interest income.

Net interest income, on a fully tax-equivalent basis, accounted for 72 percent of net interest income and noninterest income before provision for loan losses in 2008. It represented 75 percent of net interest income and noninterest income before provision for loan losses in 2007 and 2006. The level of such income is influenced primarily by changes in volume and mix of earning assets, sources of noninterest income and sources of funding, market rates of interest, and income tax rates. The Company's Asset/Liability Management Committee ("ALCO") is responsible for managing changes in net interest income and net worth resulting from changes in interest rates based on acceptable limits established by the Board of Directors. The ALCO reviews economic conditions, interest rate forecasts, the demand for loans, the availability of deposits, current operating results, liquidity, capital, and interest rate exposures. Based on such reviews, the ALCO formulates a strategy that is intended to implement objectives set forth in the asset/liability management policy.

As a result of its asset/liability management program, on June 26, 2007 the Company retired its junior subordinated debentures which carried an interest rate of 8.82 percent during 2007. The Company also retired its FHLB fixed rate advance with an interest rate of 5.82% in third quarter of 2007. The Company continues to monitor its asset/liability mix and will make changes as appropriate to ensure it is properly positioned to react to changing interest rates and inflationary trends.

The following table represents the Company's net interest income on a tax-equivalent basis to facilitate performance comparisons among various taxable and tax-exempt assets. Interest income on tax-exempt investment securities was adjusted to reflect the income on a tax-equivalent basis (considering the effect of the disallowed interest expense related to carrying these tax-exempt investment securities) using a nominal tax rate of 34 percent for 2008, 2007, 2006 (amount in thousands).

	Years ended December 31,		
	2008	2007	2006
Interest Income	\$ 19,982	\$ 22,392	\$ 21,616
Tax-equivalent adjustment	380	417	458
Interest income, tax-equivalent basis	20,362	22,809	22,074
Interest expense	(6,426)	(8,388)	(7,340)
Net interest income, tax equivalent basis	13,936	14,421	14,734
Provision for loan losses	(2,489)	—	(30)
Noninterest income	5,368	4,807	4,864
Noninterest expense	(15,372)	(15,139)	(15,351)
Income before income taxes	1,443	4,089	4,217
Income tax expense	(40)	(816)	(756)
Tax-equivalent adjustment	(380)	(417)	(458)
Income tax expense, tax-equivalent basis	(420)	(1,233)	(1,214)
Net income	<u>\$ 1,023</u>	<u>\$ 2,856</u>	<u>\$ 3,003</u>

Net interest income on a tax-equivalent basis for 2008 decreased by \$485,000 compared to a decrease of \$313,000 in 2007. In December 2008, The Board of Governors lowered the discount rate 75 basis points to one-half percent. This action was the seventh rate cut of the year causing the Prime rate to decline 400 basis points since January 1, 2008 to 3.25% at year end. Also in December, the Federal Reserve ("Fed") took unprecedented action in lowering the federal funds rate by 75 basis points to a targeted range of zero to one-quarter percent. Net interest income on a tax-equivalent basis growth was constrained due to asset yields tied to the prime rate declining in lock-step with Federal Reserve reductions while deposit rates were declining to a lesser extent due to deposit competition. Despite this pressure, the Company maintained a net interest yield on earning assets in 2008, 2007 and 2006 of 4.49 percent, 4.75 percent, and 4.98 percent on a tax equivalent basis, respectively.

Total interest income on a tax equivalent basis decreased \$2,447,000 or 11 percent for the period ended December 31, 2008 compared to the same period in 2007. Similarly, total interest income on a tax equivalent basis increased by \$735,000 or 3 percent in 2007 compared to the same period in 2006. These increases were primarily due to changes in rates and volume of average earning assets.

Total interest expense on a tax equivalent basis decreased \$1,962,000 or 23 percent in 2008 and \$1,048,000 or 14 percent in 2007 due to the repricing of interest-bearing liabilities in a lower rate environment and a \$5,909,000 decrease in average borrowed funds to \$11,394,000 compared to \$17,303,000 in 2007.

Noninterest Income

Noninterest income consists of revenues generated from a broad range of financial services and activities, including deposit and service fees, gains and losses realized from the sale of securities and assets, as well as various other components that comprise other noninterest income. Noninterest

income totaled \$5,368,000 in 2008, an increase of \$561,000 or 12 percent compared to 2007. Noninterest income decreased \$57,000 or 1 percent to \$4,807,000 in 2007 compared to 2006.

Fee income from service charges on deposit accounts, the major component of noninterest income, increased \$847,000 or 25 percent in 2008, after increasing 2 percent in 2007. The increase in service charges on deposit accounts is primarily due to an overdraft program implemented in the third quarter of 2007. In 2008, net overdraft fees totaled \$3,127,000, an increase of \$947,000 compared to the same period last year. Overdrafts fees, due to their nature, fluctuate monthly based on the short-term loan need of the customers. In 2007, service charges on deposit accounts increased \$57,000 compared to 2006.

The Company experienced a gain on the sale of securities of \$43,000 in 2008 compared to a loss of \$30,000 in 2007, and gains of \$154,000 in 2006. As part of its asset/liability strategy the bank sold various investments in order to restructure its investment portfolio to take advantage of the current interest rate environment and meet its liquidity needs to satisfy customers' demands. The Company also realized gains of \$26,000, \$47,000 and \$2,000 in 2008, 2007 and 2006, respectively, on the sale of assets. These transactions primarily represent the liquidation of repossessed assets and foreclosed properties.

Other operating income decreased by \$338,000 or 24 percent in 2008 primarily due to a decrease in commitment fees to extend credit and fees earned on official checks due to volume and lower fee rates. In 2007, other operating income increased slightly by \$25,000.

Noninterest Expense

The efficiencies in the Company's operations continue to improve as management adjusts overhead expenses to offset the impact of increases to its provision for loan losses and writedowns to approximate current market values of several OREO properties. While total noninterest expenses reflect an increase of \$233,000 in 2008, the increase was primarily driven by growth in credit-related expenses, an additional \$404,000 in OREO related expenses and writedowns which overshadowed the cost savings achieved from our efficiency and productivity initiatives. Total noninterest expense decreased by \$212,000 or 1 percent to \$15,139,000 in 2007 compared to 2006 as a result of actions taken by management to control overhead expenses.

Salaries and employee benefits expense decreased \$237,000 or 3 percent in 2008 and \$278,000 or 4 percent in 2007 due to a decrease in the Company's full-time employees (FTE). In 2008, no bonuses were paid due to the deteriorating economic conditions and the poor financial performance of the Company.

Occupancy and equipment expense includes depreciation expense and repairs and maintenance costs relating to the Company's premises and equipment. Occupancy and equipment expense was basically flat in 2008 and 2007, increasing by \$8,000 and \$38,000, respectively.

Other real estate related expenses were \$584,000 and \$179,000 in 2008 and 2007, respectively. Due to the current economic conditions and the deterioration in real estate values in the Company's market area, the Company experienced an increase in OREO activity in 2008 and wrote down the value of several OREO properties to their approximate market values. Total OREO increased by \$404,000 in 2008 compared to an increase of \$138,000 in 2007.

Other operating expenses increased slightly by \$57,000 or 1 percent in 2008 to \$5,384,000 from \$5,327,000 in 2007. Other operating expense decreased by \$110,000 or 2 percent in 2007 compared to the same period in 2006.

Income Taxes

Income tax expense decreased by \$777,000 or 95 percent to \$40,000 for the year ended December 31, 2008 compared to \$816,000 in 2007. The effective tax rate as a percentage of pretax income was 4 percent in 2008, 22 percent in 2007, and 20 percent in 2006. The statutory federal rate was 34 percent during 2008, 2007 and 2006. The decrease in the effective tax rate in 2008 is primarily due to the increase of deferred tax benefits which increased by \$1,106,000 to \$1,130,000 compared to \$25,000 last year. For further information concerning the provision for income taxes, refer to Note 7, Income Taxes, in the Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

This information is not required since the Company qualifies as a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements, notes thereon, and independent auditors report are included herein beginning on page F-1:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2008 and 2007
Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
Notes to Consolidated Financial Statements

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

There have been no changes or disagreements with the Company's accountants in the last two fiscal years.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as of the end of the period covered by this Annual Report on Form 10-K, our principal executive officer and principal financial officer have evaluated the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this annual report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact

that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon this evaluation, our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that such disclosure controls and procedures are adequate to ensure that material information relating to the Company, including its consolidated subsidiary, that is required to be included in its periodic filings with the Securities Exchange Commission, is timely made known to them.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with appropriate management authorization and accounting records are reliable for the preparation of financial statements in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management believes that Citizens Bancshares Corporation maintained effective internal control over financial reporting as of December 31, 2008.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Controls

There have been no changes in our internal controls over financial reporting during our fourth fiscal quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The responses to this Item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009, under the headings "Election of Directors," "Executive Officers," "Beneficial Ownership of Common Stock," "Information About the Board and its Committees" and "Compliance With Section 16(a) of the Securities Exchange Act of 1934" and are incorporated herein by reference.

The Company has adopted a Code of Business Conduct and Ethics that applies to its principal executive, financial and accounting officers. A copy may also be obtained, without charge, upon written request addressed to Citizens Bancshares Corporation, 75 Piedmont Avenue, N.E., Atlanta, Georgia 30303, Attention: Corporate Secretary. The request may also be delivered by fax to the Corporate Secretary at (404) 575-8311.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Company's board of directors.

ITEM 11. EXECUTIVE COMPENSATION

The responses to this Item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 under the heading "Executive Compensation" and are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The responses to this item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 under the heading "Beneficial Ownership of Common Stock" and are incorporated herein by reference.

The following table sets forth information regarding our equity compensation plans under which shares of our common stock are authorized for issuance. All data is presented as of December 31, 2008.

	Equity Compensation Plan Table		
	(a)	(b)	(c)
<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders	109,503 shares	\$11.44	215,107 shares
Equity compensation plans not approved by security holders	17,500 shares	\$ 9.88	None
Total	127,003 shares	\$11.23	215,107 shares

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The responses to this Item are included in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 under the heading, "Certain Transactions" and "Director Independence" and are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to the fees paid to the Company's independent accountants is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2009 under the heading "Accounting Matters" and are incorporated herein by reference.

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Citizens Bancshares Corporation and Subsidiary

*Consolidated Financial Statements as of
December 31, 2008 and 2007 and for Each of the
Three Years in the Period Ended December 31, 2008*

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CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Citizens Bancshares Corporation
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Citizens Bancshares Corporation and its subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Citizens Bancshares Corporation and its subsidiary as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years in the three year period then ended, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assessment about the effectiveness of Citizens Bancshares Corporation and its subsidiary's internal control over financial reporting as of December 31, 2008 included in the accompanying Management's Report on Internal Control over Financial Reporting, accordingly, we do not express an opinion thereon.

Elliott Davis, LLC

Elliott Davis, LLC
Columbia, South Carolina
March 27, 2009

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
Cash and due from banks, including reserve requirements of \$300,000 at December 31, 2008 and 2007, respectively	\$ 6,869,917	\$ 8,187,833
Interest-bearing deposits with banks	9,275,933	521,586
Certificates of deposit	345,000	100,000
Investment securities available for sale, at fair value (amortized cost of \$87,847,328 and \$59,606,060 at December 31, 2008 and 2007, respectively)	87,960,590	59,677,477
Investment securities held to maturity, at cost (estimated fair value of \$4,696,921 and \$7,437,567 at December 31, 2008 and 2007, respectively)	4,583,310	7,373,981
Other investments	2,287,450	1,841,550
Loans receivable—net	210,305,509	235,363,511
Premises and equipment—net	7,536,703	7,791,706
Cash surrender value of life insurance	10,080,396	9,744,891
Foreclosed real estate—net	3,874,138	2,422,865
Other assets	4,976,480	5,358,263
	\$348,095,426	\$338,383,663
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Noninterest-bearing deposits	\$ 54,785,845	\$ 53,893,706
Interest-bearing deposits	227,126,917	225,705,481
Total deposits	281,912,762	279,599,187
Accrued expenses and other liabilities	3,572,301	4,367,222
Federal funds purchased	—	2,000,000
Notes payable	239,647	339,647
Advances from Federal Home Loan Bank	28,712,560	18,944,408
Total liabilities	314,437,270	305,250,464
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock—\$1 par value; 20,000,000 shares authorized; 2,230,065 shares issued and outstanding	2,230,065	2,230,065
Nonvoting common stock—\$1 par value; 5,000,000 shares authorized; 90,000 shares issued and outstanding	90,000	90,000
Additional paid-in capital	7,611,405	7,553,588
Retained earnings	25,465,012	25,071,250
Treasury stock at cost, 219,913 and 227,517 shares at December 31, 2008 and 2007, respectively	(1,813,080)	(1,858,839)
Accumulated other comprehensive income, net of income taxes	74,754	47,135
Total stockholders' equity	33,658,156	33,133,199
	\$348,095,426	\$338,383,663

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income:			
Loans, including fees	\$15,877,899	\$18,679,566	\$18,050,725
Investment securities:			
Taxable	3,158,524	2,496,921	2,482,652
Tax-exempt	738,335	808,750	889,140
Dividends	73,839	98,915	126,646
Interest-bearing deposits	132,742	307,512	66,295
Total interest income	<u>19,981,339</u>	<u>22,391,664</u>	<u>21,615,458</u>
Interest expense:			
Deposits	6,144,341	7,360,882	5,710,991
Other borrowings	281,749	1,026,961	1,628,971
Total interest expense	<u>6,426,090</u>	<u>8,387,843</u>	<u>7,339,962</u>
Net interest income	13,555,249	14,003,821	14,275,496
Provision for loan losses	2,489,000	—	30,000
Net interest income after provision for loan losses	<u>11,066,249</u>	<u>14,003,821</u>	<u>14,245,496</u>
Noninterest income:			
Service charges on deposits	4,246,533	3,399,147	3,341,830
Gains (losses) on sales of securities	42,532	(30,299)	153,647
Gains on sales of assets	26,053	47,277	1,899
Other operating income	1,052,905	1,391,356	1,366,716
Total noninterest income	<u>5,368,023</u>	<u>4,807,481</u>	<u>4,864,092</u>
Noninterest expense:			
Salaries and employee benefits	7,013,296	7,250,732	7,528,768
Occupancy and equipment	2,390,647	2,382,168	2,344,595
Other real estate owned	583,654	179,301	40,881
Other operating expenses	5,383,959	5,326,796	5,436,750
Total noninterest expense	<u>15,371,556</u>	<u>15,138,997</u>	<u>15,350,994</u>
Income before income taxes	1,062,716	3,672,305	3,758,594
Income tax expense	39,564	816,385	755,705
Net income	<u>\$ 1,023,152</u>	<u>\$ 2,855,920</u>	<u>\$ 3,002,889</u>
Net income per share—basic	<u>\$ 0.49</u>	<u>\$ 1.37</u>	<u>\$ 1.44</u>
Net income per share—diluted	<u>\$ 0.49</u>	<u>\$ 1.37</u>	<u>\$ 1.44</u>
Weighted average outstanding shares:			
Basic	2,095,753	2,089,906	2,087,002
Diluted	2,095,753	2,089,906	2,087,002

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	Common Stock		Nonvoting Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount			Shares	Amount		
Balance—December 31, 2005	2,230,065	\$2,230,065	90,000	\$90,000	\$7,439,431	\$20,138,346	(231,313)	\$(1,896,276)	\$(787,177)	\$27,214,389
Net income	—	—	—	—	—	3,002,889	—	—	—	3,002,889
Unrealized holding gains on investment securities available for sale—net of taxes of \$181,786	—	—	—	—	—	—	—	—	350,899	350,899
Less reclassification adjustment for holding gains included in net income—net of taxes of \$52,240	—	—	—	—	—	—	—	—	(101,407)	(101,407)
Comprehensive income	—	—	—	—	—	—	—	—	—	3,252,381
Purchase of treasury stock	—	—	—	—	6,074	—	(6,968)	(65,000)	—	(58,926)
Sale of treasury stock	—	—	—	—	1,254	—	3,839	45,860	—	47,114
Stock based compensation expense	—	—	—	—	50,480	—	—	—	—	50,480
Dividends declared—\$0.17 per share	—	—	—	—	—	(355,732)	—	—	—	(355,732)
Balance—December 31, 2006	2,230,065	\$2,230,065	90,000	\$90,000	\$7,497,239	\$22,785,503	(234,442)	\$(1,915,416)	\$(537,685)	\$30,149,706
Net income	—	—	—	—	—	2,855,920	—	—	—	2,855,920
Unrealized holding gains on investment securities available for sale—net of taxes of \$290,969	—	—	—	—	—	—	—	—	564,823	564,823
Plus reclassification adjustment for holding losses included in net income—net of taxes of \$10,302	—	—	—	—	—	—	—	—	19,997	19,997
Comprehensive income	—	—	—	—	—	—	—	—	—	3,440,740
Cumulative effect of adoption of fair value option	—	—	—	—	—	(173,280)	—	—	—	(173,280)
Stock based compensation expense	—	—	—	—	53,132	—	—	—	—	53,132
Sale of treasury stock	—	—	—	—	3,217	—	6,925	56,577	—	59,794
Dividends declared—\$0.19 per share	—	—	—	—	—	(396,893)	—	—	—	(396,893)
Balance—December 31, 2007	2,230,065	\$2,230,065	90,000	\$90,000	\$7,553,588	\$25,071,250	(227,517)	\$(1,858,839)	\$ 47,135	\$33,133,199
Net income	—	—	—	—	—	1,023,152	—	—	—	1,023,152
Unrealized holding gains on investment securities available for sale—net of taxes of \$28,689	—	—	—	—	—	—	—	—	55,690	55,690
Less reclassification adjustment for holding gains included in net income—net of taxes of \$14,461	—	—	—	—	—	—	—	—	(28,071)	(28,071)
Comprehensive income	—	—	—	—	—	—	—	—	—	1,050,771
Cumulative effect of adoption of EITF 06-4, net of taxes of \$119,210	—	—	—	—	—	(231,409)	—	—	—	(231,409)
Stock based compensation expense	—	—	—	—	57,860	—	—	—	—	57,860
Purchase of treasury stock	—	—	—	—	—	—	(6,393)	(44,088)	—	(44,088)
Sale of treasury stock	—	—	—	—	(43)	—	13,997	89,847	—	89,804
Dividends declared—\$0.19 per share	—	—	—	—	—	(397,981)	—	—	—	(397,981)
Balance—December 31, 2008	2,230,065	\$2,230,065	90,000	\$90,000	\$7,611,405	\$25,465,012	(219,913)	\$(1,813,080)	\$ 74,754	\$33,658,156

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES:			
Net income	\$ 1,023,152	\$ 2,855,920	\$ 3,002,889
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,489,000	—	30,000
Depreciation	802,833	775,608	658,480
Amortization and accretion—net	172,403	261,054	699,650
Provision (benefit) for deferred income taxes	(38,247)	(107,428)	(93,744)
Gains on sales and disposals of investments and property—net	(42,532)	(16,980)	(155,546)
Stock based compensation plan	57,860	53,132	50,480
Changes in assets and liabilities, net of acquisition:			
Change in other assets	17,059	(318,027)	(710,627)
Change in accrued expenses and other liabilities	(1,026,330)	592,391	371,880
Net cash provided by operating activities	<u>3,455,198</u>	<u>4,095,670</u>	<u>3,853,462</u>
INVESTING ACTIVITIES:			
Decrease (increase) in interest-bearing deposits with banks	(8,754,347)	4,066,962	(4,190,871)
Net change in certificates of deposit	(245,000)	—	—
Proceeds from the sales and maturities of securities available for sale	30,437,070	12,838,477	14,056,072
Proceed from the maturities of securities held to maturity	2,783,467	791,643	1,226,229
Purchases of securities available for sale	(58,734,948)	(1,439,103)	(18,316,467)
Purchase of other investments	(5,507,200)	(2,358,200)	(5,300,900)
Proceeds from sales of other investments	5,061,300	2,762,900	5,889,500
Net change in loans	19,653,640	(20,729,384)	(3,032,075)
Purchases of premises and equipment	(547,830)	(891,156)	(883,550)
Proceeds from sale of premises and equipment	—	178,931	7,570
Premiums (paid) and policies surrendered	—	(27,942)	84,070
Net proceeds from sale of foreclosed real estate	1,451,273	1,106,014	1,004,137
Net cash used in investing activities	<u>(14,402,575)</u>	<u>(3,700,858)</u>	<u>(9,456,285)</u>

The accompanying notes are an integral part of these consolidated financial statements.

(Continued)

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
FINANCING ACTIVITIES:			
Net change in deposits	\$ 2,313,574	\$10,578,841	\$ 14,350,980
Increase (decrease) in Federal Funds Purchased	(2,000,000)	2,000,000	—
Principal payments on note payable	(100,000)	—	(100,000)
Retirement of junior subordinated debentures	—	(5,000,000)	—
Net increase (decrease) in Federal Home Loan Bank advances	9,768,152	(8,064,061)	(10,954,077)
Dividends paid	(397,981)	(396,893)	(355,732)
Net sale (purchase) of treasury stock	45,716	59,794	(11,812)
	<u>9,629,461</u>	<u>(822,319)</u>	<u>2,929,359</u>
Net cash provided by (used in) financing activities . . .	<u>9,629,461</u>	<u>(822,319)</u>	<u>2,929,359</u>
Net change in cash and cash equivalents	(1,317,916)	(427,507)	(2,673,464)
CASH AND CASH EQUIVALENTS			
Beginning of year	<u>8,187,833</u>	<u>8,615,340</u>	<u>11,288,804</u>
End of year	<u>\$ 6,869,917</u>	<u>\$ 8,187,833</u>	<u>\$ 8,615,340</u>
Supplemental disclosures of cash paid during the year for:			
Interest	\$ 6,978,506	\$ 8,224,320	\$ 7,175,847
Income taxes	1,108,000	751,522	960,000
Supplemental disclosures of noncash investing activities:			
Real estate acquired through foreclosure	2,902,546	3,356,212	569,819
Change in unrealized gain (loss) on investment securities available for sale—net of tax	27,619	584,820	249,492
Cumulative effect of adoption of fair value option	231,409	173,280	—

The accompanying notes are an integral part of these consolidated financial statements.

(Concluded)

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business—Citizens Bancshares Corporation and subsidiary (the “Company”) is a holding company that provides a full range of commercial banking to individual and corporate customers in its primary market areas, metropolitan Atlanta and Columbus, Georgia, and Birmingham and Eutaw, Alabama through its wholly owned subsidiary, Citizens Trust Bank (the “Bank”). The Bank operates under a state charter and serves its customers through seven full-service branches in metropolitan Atlanta, one full-service branch in Columbus, Georgia, one full-service branch in Birmingham, Alabama, and one full-service branch in Eutaw, Alabama. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation—The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term are the allowance for loan losses, the valuation of allowances associated with the recognition of deferred tax assets and the value of foreclosed real estate and goodwill.

Cash and Cash Equivalents—Cash and cash equivalents includes cash on hand and amounts due from banks and federal funds sold. The Federal Reserve Bank (the “FRB”) requires the Company to maintain a required cash reserve balance on deposit with the FRB, based on the Company’s daily average balance with the FRB. This reserve requirement represents 3% of the Company’s daily average demand deposit balance between \$9.3 million and \$43.9 million and 10% of the Company’s daily average demand deposit balance above \$43.9 million.

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

Other Investments—Other investments consist of Federal Home Loan Bank stock and Federal Reserve Bank stock which are restricted and have no readily determinable market value. These investments are carried at cost.

Investment Securities—The Company classifies investments in one of three categories based on management’s intent upon purchase: held to maturity securities which are reported at amortized cost, trading securities which are reported at fair value with unrealized holding gains and losses included in earnings, and available for sale securities which are recorded at fair value with unrealized holding gains and losses included as a component of accumulated other comprehensive income. The Company had no investment securities classified as trading securities during 2008, 2007, or 2006.

Premiums and discounts on available for sale and held to maturity securities are amortized or accreted using a method which approximates a level yield. Amortization and accretion of premiums and discounts is presented within investment securities interest income on the Consolidated Statements of Income.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains and losses on sales of investment securities are recognized upon disposition, based on the adjusted cost of the specific security. A decline in market value of any security below cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security. The determination of whether an other-than-temporary impairment has occurred involves significant assumptions, estimates, changes in economic conditions and judgment by management. There was no other-than-temporary impairment for securities recorded during 2008, 2007 or 2006.

Loans Receivable and Allowance for Loan Losses—Loans are reported at principal amounts outstanding less unearned income and the allowance for loan losses. Interest income on loans is recognized on a level yield basis. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. Premiums and discounts on loans purchased are amortized and accreted using the level yield method over the estimated remaining life of the loan purchased. The accretion and amortization of loan fees, origination costs, and premiums and discounts are presented as a component of loan interest income on the Consolidated Statements of Income.

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

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

The Company provides for estimated losses on loans receivable when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. For loans that are pooled for purposes of determining necessary provisions, estimates are based on loan types, history of charge-offs, and other delinquency analyses. Therefore, the value used to determine the provision for losses is subject to the reasonableness of these estimates. The adequacy of the allowance for loan losses is reviewed on a monthly basis by management and the Board of Directors. This assessment is made in the context of historical losses as well as existing economic conditions, performance trends within specific portfolio segments, and individual concentrations of credit.

Loans are charged-off against the allowance when, in the opinion of management, such loans are deemed to be uncollectible and subsequent recoveries are added to the allowance.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Foreclosed Real Estate—Foreclosed real estate is reported at the lower of cost or fair value less estimated disposal costs, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. Any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is treated as a charge-off against the allowance for loan losses. Any subsequent declines in value are charged to earnings.

Intangible Assets—Finite lived intangible assets of the Company represent deposit assumption premiums recorded upon the purchase of certain assets and liabilities from other financial institutions. Deposit assumption premiums are amortized over seven years, the estimated average lives of the deposits acquired, using the straight-line method and are included within other assets on the Consolidated Balance Sheets.

The Company reviews the carrying value of goodwill on an annual basis and on an interim basis if certain events or circumstances indicate that an impairment loss may have been incurred. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value.

The following table presents information about our intangible assets:

	December 31, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortized intangible asset:				
Goodwill	\$ 362,139	\$ —	\$ 362,139	\$ —
Amortized intangible asset:				
Core deposit intangibles	\$2,836,345	\$2,765,359	\$2,836,345	\$2,712,119

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table presents information about aggregate amortization expense for each of the three succeeding fiscal years as follows:

	For the Years Ended December 31,		
	2008	2007	2006
Aggregate amortization expense of core deposit intangibles	\$53,240	\$111,899	\$405,192
Estimated aggregate amortization expense of core deposit intangibles for the year ending December 31:			
2009	53,240		
2010	17,746		

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

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

In 2006, the FASB issued Interpretation No. 48 (FIN 48), “Accounting for Uncertainty in Income Taxes—an Interpretation of SFAS No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise’s tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have any impact on the Company’s consolidated financial position.

Net Income Per Share—Basic net income per common share (“EPS”) is computed based on net income divided by the weighted average number of common shares outstanding. Diluted EPS is computed based on net income divided by the weighted average number of common and potential common shares. The only potential common share equivalents are those related to stock options. Stock options which are anti-dilutive are excluded from the calculation of diluted EPS.

Stock Based Compensation—On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) SFAS No. 123(R), “Accounting for

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation”, to account for compensation costs under its stock option plan. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees (as amended)” (“APB 25”). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for the Company’s stock options because the option exercise price in its plan equaled the market price on the date of grant. Prior to January 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant.

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes valuation model. Expected volatility is based on the historical volatility of the Company’s stock, using daily price observations over the expected term of the stock options. The expected term represents the period of time that stock options granted are expected to be outstanding and is derived from historical data which is used to evaluate patterns such as stock option exercise and employee termination. The expected dividend yield is based on recent dividend history. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant based on the expected life of the option.

The Company granted options of 31,000, 34,500 and 16,000 in 2008, 2007, and 2006, respectively. The fair values of these options granted during 2008, 2007, and 2006 were \$54,000, \$68,000 and \$38,000, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Expected stock price volatility	36.36%	29.45%	31.79%
Expected dividend yield	1.97	1.74	1.48
Risk-free interest rate (weighted average)	3.93	4.66	5.14
Expected life of options	6 years	6 years	6 years

New Industry Developments—On October 14, 2008, using the systemic risk exception to the FDIC Improvement Act of 1991, the United States Treasury authorized the FDIC to provide a 100% guarantee of newly-issued senior unsecured debt and deposits in non-interest bearing accounts at FDIC insured institutions. Initially, all eligible financial institutions were automatically covered under this program, known as the Temporary Liquidity Guarantee Program, without incurring any fees for a period of 30 days. Coverage under the Temporary Liquidity Guarantee Program after the initial 30-day period was available to insured financial institutions at a cost based on a tiered structure by maturity date for the senior unsecured debt, and 10 basis points per annum for the non-interest bearing deposits. After this initial 30-day period, institutions continued to be covered under the Temporary Liquidity Guarantee Program unless they informed the FDIC that they have decided to opt out of the program. Upon formal resolution by the Board of Directors, the Company opted in and is participating in the Temporary Liquidity Guarantee Program.

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards—In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 141(R), “Business Combinations,” (“SFAS 141(R)”) which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

Also, in December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,” (“SFAS 160”). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financials statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 was effective for the Company on January 1, 2009. SFAS 160 had no impact on the Company’s financial position, results of operations or cash flows.

Lastly, in 2007, the FASB’s Emerging Issues Task Force (“EITF”) issued EITF 06-4 “Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements”, which requires an employer to recognize a liability for the postretirement death benefits provided under endorsement split-dollar life insurance arrangements. An endorsement split-dollar life insurance arrangement is where the employer owns a life insurance policy that covers the life of an employee and, pursuant to a separate agreement, endorses a portion of the policy’s death benefits to the insured employee’s beneficiary. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company has entered into Supplemental Death Benefit Agreements with certain executive officers pursuant to which the Company has agreed to pay a portion of the death benefit to the executives’ beneficiaries upon their death. As a result of the adoption of EITF 06-4, the Company recognized a cumulative effect adjustment to retained earnings of \$231,000.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2008, the FASB issued FASB Staff Position No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions," ("FSP 140-3"). This FSP provides guidance on accounting for a transfer of a financial asset and the transferor's repurchase financing of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS 140. However, if certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately under SFAS 140. FSP 140-3 was effective for the Company on January 1, 2009. The adoption of FSP 140-3 had no impact on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, thereby improving the transparency of financial reporting. It is intended to enhance the current disclosure framework in SFAS 133 by requiring that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure is intended to convey the purpose of derivative use in terms of the risks that the entity is intending to manage. SFAS 161 was effective for the Company on January 1, 2009 and will result in additional disclosures if the Company enters into any material derivative or hedging activities.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets," ("FSP 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other U.S. generally accepted accounting principles. This FSP was effective for the Company on January 1, 2009 and had no material impact on the Company's financial position, results of operations or cash flows.

In May, 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 is effective November 15, 2008. The FASB has stated that it does not expect SFAS 162 will result in a change in current practice. The application of SFAS 162 had no effect on the Company's financial position, results of operations or cash flows.

The FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)," ("FSP APB 14-1"). The Staff Position specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 provides guidance for initial and subsequent measurement as well as derecognition provisions. The Staff Position was effective as of January 1, 2009 and had no material effect on the Company's financial position, results of operations or cash flows.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities," ("FSP EITF 03-6-1"). The Staff Position provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and must be included in the earnings per share computation. FSP EITF 03-6-1 was effective January 1, 2009 and had no effect on the Company's financial position, results of operations, earnings per share or cash flows.

FSP SFAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161," ("FSP SFAS 133-1 and FIN 45-4") was issued September 2008, effective for reporting periods (annual or interim) ending after November 15, 2008. FSP SFAS 133-1 and FIN 45-4 amends SFAS 133 to require the seller of credit derivatives to disclose the nature of the credit derivative, the maximum potential amount of future payments, fair value of the derivative, and the nature of any recourse provisions. Disclosures must be made for entire hybrid instruments that have embedded credit derivatives.

The Staff Position also amends FASB Interpretation No. ("FIN") 45 to require disclosure of the current status of the payment/performance risk of the credit derivative guarantee. If an entity utilizes internal groupings as a basis for the risk, how the groupings are determined must be disclosed as well as how the risk is managed.

The Staff Position encourages that the amendments be applied in periods earlier than the effective date to facilitate comparisons at initial adoption. After initial adoption, comparative disclosures are required only for subsequent periods.

FSP SFAS 133-1 and FIN 45-4 clarifies the effective date of SFAS 161 such that required disclosures should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. The adoption of this Staff Position had no material effect on the Company's financial position, results of operations or cash flows.

The SEC's Office of the Chief Accountant and the staff of the FASB issued press release 2008-234 on September 30, 2008 ("Press Release") to provide clarifications on fair value accounting. The Press Release includes guidance on the use of management's internal assumptions and the use of "market" quotes. It also reiterates the factors in SEC Staff Accounting Bulletin ("SAB") Topic 5M which should be considered when determining other-than-temporary impairment: the length of time and extent to which the market value has been less than cost; financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value.

On October 10, 2008, the FASB issued FSP SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP SFAS 157-3"). This FSP clarifies the application of SFAS No. 157, "Fair Value Measurements" in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. The FSP is effective upon issuance, including prior periods

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for which financial statements have not been issued. For the Company, this FSP was effective for the quarter ended September 30, 2008.

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 and cash flows.

Reclassifications—Certain prior year amounts have been reclassified to conform to the 2008 presentation. Such reclassifications had no impact on net income or retained earnings as previously reported.

2. INVESTMENT SECURITIES

Investment securities available for sale are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
At December 31, 2008:				
State, county, and municipal securities	\$21,207,126	\$ 313,022	\$155,161	\$21,364,987
Mortgage-backed securities	<u>66,640,202</u>	<u>701,802</u>	<u>746,401</u>	<u>66,595,603</u>
Totals	<u>\$87,847,328</u>	<u>\$1,014,824</u>	<u>\$901,562</u>	<u>\$87,960,590</u>
At December 31, 2007:				
Government-sponsored enterprises securities . . .	\$ 6,944,976	\$ 24,130	\$ 5,233	\$ 6,963,873
State, county, and municipal securities	13,919,410	111,801	43,054	13,988,157
Mortgage-backed securities	<u>38,741,674</u>	<u>213,670</u>	<u>229,897</u>	<u>38,725,447</u>
Totals	<u>\$59,606,060</u>	<u>\$ 349,601</u>	<u>\$278,184</u>	<u>\$59,677,477</u>

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2. INVESTMENT SECURITIES (Continued)

Investment securities held to maturity are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
At December 31, 2008:				
State, county, and municipal securities	\$ 4,002,790	\$ 117,604	\$ 10,878	\$ 4,109,516
Mortgage-backed securities	580,520	6,885	—	587,405
Totals	<u>\$ 4,583,310</u>	<u>\$ 124,489</u>	<u>\$ 10,878</u>	<u>\$ 4,696,921</u>
At December 31, 2007:				
Government-sponsored enterprises securities . . .	\$ 2,384,615	\$ 377	\$ 3,966	\$ 2,381,026
State, county, and municipal securities	4,255,795	81,954	—	4,337,749
Mortgage-backed securities	733,571	49	14,828	718,792
Totals	<u>\$ 7,373,981</u>	<u>\$ 82,380</u>	<u>\$ 18,794</u>	<u>\$ 7,437,567</u>

The amortized costs and fair values of investment securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with and without call or prepayment penalties.

	<u>Held to Maturity</u>		<u>Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,586	\$ 2,594	\$ —	\$ —
Due after one year through five years	992,372	1,000,396	5,400,582	5,507,376
Due after five years through ten years	3,588,352	3,693,931	13,031,911	13,215,661
Due after ten years	—	—	69,414,835	69,237,553
	<u>\$4,583,310</u>	<u>\$4,696,921</u>	<u>\$87,847,328</u>	<u>\$87,960,590</u>

Gross realized gains on securities were \$96,267, \$2,578, and \$154,847 in 2008, 2007, and 2006, respectively. Gross realized losses on securities were \$53,735, \$32,877 and \$1,200 in 2008, 2007, and 2006, respectively.

Investment securities with carrying values of approximately \$88,964,000, \$56,329,000 and \$58,719,000 at December 31, 2008, 2007, and 2006, respectively, were pledged to secure public funds on deposit and for other purposes as required by law.

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2. INVESTMENT SECURITIES (Continued)

Those investment securities held to maturity and available for sale which have an unrealized loss position at December 31, 2008 and 2007 are detailed below:

Securities Available for Sale

	Securities in a loss position for less than twelve months		Securities in a loss position for twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities	\$17,022,585	\$(719,016)	\$1,337,111	\$(27,385)	\$18,359,696	\$(746,401)
Municipal securities	4,016,033	(155,161)	—	—	4,016,033	(155,161)
Total	<u>\$21,038,618</u>	<u>\$(874,177)</u>	<u>\$1,337,111</u>	<u>\$(27,385)</u>	<u>\$22,375,729</u>	<u>\$(901,562)</u>

Securities Held to Maturity

	Securities in a loss position for less than twelve months		Securities in a loss position for twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal securities	\$ 269,122	\$ (10,878)	\$ —	\$ —	\$ 269,122	\$ (10,878)
Total	<u>\$ 269,122</u>	<u>\$ (10,878)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 269,122</u>	<u>\$ (10,878)</u>

Securities classified as available for sale are recorded at fair market value and held to maturity securities are recorded at amortized cost. At December 31, 2008 the Company has 5 individual investments that were in an unrealized loss position for more than 12 months. The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

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

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3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans outstanding, by classification, are summarized as follows:

	December 31,	
	2008	2007
Commercial, financial, and agricultural	\$ 15,826,477	\$ 9,317,218
Installment	10,581,978	12,232,440
Real estate—mortgage	164,822,039	182,120,221
Real estate—construction	21,526,282	32,452,957
Other	2,399,891	2,387,070
	<u>215,156,667</u>	<u>238,509,906</u>
Less: Net deferred loan fees	192,550	298,744
Allowance for loan losses	4,658,608	2,847,651
	<u>\$210,305,509</u>	<u>\$235,363,511</u>

Concentrations—The Company’s concentrations of credit risk are as follows:

- A substantial portion of the Company’s loan portfolio is collateralized by real estate in metropolitan Atlanta and Birmingham markets. Accordingly, the ultimate collectibility of a substantial portion of the Company’s loan portfolio is susceptible to changes in market conditions in the metropolitan Atlanta and Birmingham areas.
- The Company’s loans to area churches were approximately \$42.5 million and \$47.6 million at December 31, 2008 and 2007, respectively, which are generally secured by real estate.
- The Company’s loans to area convenience stores were approximately \$12.6 million and \$13.4 million at December 31, 2008 and 2007, respectively. Loans to convenience stores are generally secured by real estate.
- The Company’s loans to area hotels were approximately \$20.4 million and \$20.3 million at December 31, 2008 and 2007, respectively, which are generally secured by real estate.

Allowance for Loan Losses—Activity in the allowance for loan losses is summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
Balance at beginning of year	\$2,847,651	\$3,108,590	\$3,326,882
Provision for loan losses	2,489,000	—	30,000
Loans charged off	(792,085)	(532,606)	(528,624)
Recoveries on loans previously charged off	114,042	271,667	280,332
	<u>\$4,658,608</u>	<u>\$2,847,651</u>	<u>\$3,108,590</u>

Nonaccrual loans amounted to \$16,178,000 and \$5,261,000 at December 31, 2008 and 2007, respectively. There are no loans greater than 90 days past due and still accruing interest at December 31, 2008 and 2007.

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3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

At December 31, 2008 and 2007, the recorded investment in loans considered to be impaired was \$22,489,000 and \$11,767,000, respectively. The related allowance for loan losses for these loans was \$2,504,000 and \$2,180,000 at December 31, 2008 and 2007, respectively. The average investment in impaired loans during 2008 and 2007 was approximately \$17,128,000 and \$9,560,000, respectively. Interest income recognized on impaired loans was approximately \$1,168,000, \$1,021,000, and \$1,080,000 in 2008, 2007, and 2006, respectively. Interest income recognized on a cash basis was approximately \$336,000, \$209,000, and \$205,000 in 2008, 2007, and 2006, respectively.

4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2008	2007
Land	\$ 1,840,250	\$ 1,840,250
Buildings and improvements	7,073,468	6,968,857
Furniture and equipment	7,624,394	7,181,175
	16,538,112	15,990,282
Less accumulated depreciation	9,001,409	8,198,576
	\$ 7,536,703	\$ 7,791,706

5. DEPOSITS

The following is a summary of interest-bearing deposits:

	December 31,	
	2008	2007
Demand deposit and money market accounts	\$ 72,429,456	\$ 68,728,126
Savings accounts	32,220,527	33,136,398
Time deposits of \$100,000 or more	76,072,101	61,210,358
Other time deposits	46,404,833	62,630,599
	\$227,126,917	\$225,705,481

At December 31, 2008, maturities of time deposits are approximately as follows:

2009	\$110,786,668
2010	2,257,572
2011	6,450,107
2012	25,587
2013 and thereafter	2,957,000
	\$122,476,934

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6. OTHER BORROWINGS

Federal Funds Purchased—Federal funds purchased represent unsecured borrowings from other banks and generally mature daily. At December 31, 2007 the Company had \$2,000,000 outstanding at an interest rate of 3.65%. There was no amount outstanding at December 31, 2008.

Notes Payable—At December 31, 2008 and 2007, the unsecured note payable had an outstanding principal balance of \$239,647 and \$339,647, respectively. The note bore interest at a rate of 2.75% at December 31, 2008 and 6.75% at December 31, 2007 (50 basis points below the lender’s prime rate) and is payable quarterly. The principal balance is due in full on June 30, 2009.

Federal Home Loan Bank Advances—At December 31, 2008 and 2007, the Company has variable rate advances of approximately \$28.4 million and \$18.6 million outstanding with a weighted average interest rate of 0.46% and 4.40%, respectively. The variable rate advances outstanding fluctuates daily depending on the liquidity needs of the Company. In August 2006, the Company received an AHP Award in the amount of \$400,000. The AHP is a principal reducing credit with an interest rate of zero, and at December 31, 2008 had a remaining balance of \$362,560. All of these advances are collateralized by FHLB stock, a blanket lien on the Bank’s 1-4 family mortgages and commercial real estate loans. As of December 31, 2008 and 2007, total loans pledged as collateral was \$46,273,000 and \$55,000,000, respectively.

As of December 31, 2008 and 2007, maturities of the Company’s Federal Home Loan Bank Advances are approximately as follows:

<u>Maturity</u>	<u>Rate</u>	<u>December 31,</u>	
		<u>2008</u>	<u>2007</u>
July-09	Variable (0.46% at December 31, 2008)	\$28,350,000	\$18,565,000
August-26(1) . .	N/A	362,560	379,408
		<u>\$28,712,560</u>	<u>\$18,944,408</u>

(1) Represents an Affordable Housing Program (AHP) award used to subsidize loans for homeownership or rental initiatives. The AHP is a principal reducing credit, scheduled to mature on August 17, 2026 with an interest rate of zero.

At December 31, 2008, the Company had unused short-term lines of credit to purchase federal funds from unrelated banks totaling \$6 million (which may be canceled at the lenders’ option). These lines of credit are generally available on a one-to-fourteen day basis for funding short-term liquidity needs. In addition, the Company had a \$70 million line of credit at the FHLB of which \$28.7 million is outstanding as an advance and \$20 million is used as a Letter of Credit to secure public deposits. The Company also had \$7 million of borrowing capacity at the Federal Discount Window.

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7. INCOME TAXES

The components of income tax expense consist of:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current tax expense	\$ 1,169,578	\$840,896	\$665,620
Deferred tax (benefit) expense	<u>(1,130,014)</u>	<u>(24,511)</u>	<u>90,085</u>
	<u>\$ 39,564</u>	<u>\$816,385</u>	<u>\$755,705</u>

Income tax expense for the years ended December 31, 2008, 2007, and 2006 differed from the amounts computed by applying the statutory federal income tax rate of 34% to earnings before income taxes as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income tax expense at statutory rate	\$ 361,323	\$1,248,584	\$1,277,922
Tax-exempt interest income—net of disallowed interest expense	(227,184)	(258,878)	(279,016)
Nondeductible expenses	21,878	20,095	18,209
Cash surrender value of life insurance income .	(114,072)	(120,119)	(129,290)
Other—net	<u>(2,381)</u>	<u>(73,297)</u>	<u>(132,120)</u>
Income tax expense	<u>\$ 39,564</u>	<u>\$ 816,385</u>	<u>\$ 755,705</u>

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7. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant amounts of deferred tax assets and deferred tax liabilities are presented below:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Net operating losses and credits	\$ 290,167	\$ 336,399
Loans, principally due to difference in allowance for loan losses and deferred loan fees	1,643,948	956,508
Nonaccrual loan interest	355,404	130,433
Postretirement benefit accrual, deferred compensation . .	709,955	621,082
Other real estate owned	286,130	81,923
Other	<u>113,880</u>	<u>213,543</u>
Gross deferred tax asset	3,399,484	2,339,888
Valuation allowance	<u>(128,643)</u>	<u>(128,643)</u>
Total deferred tax assets	<u>3,270,841</u>	<u>2,211,245</u>
Deferred tax liabilities:		
Net unrealized loss on securities available for sale	38,510	24,282
Purchased loan discount	205,249	239,457
Premises and equipment	140,822	102,862
Other	<u>148,432</u>	<u>222,602</u>
Total deferred tax liabilities	<u>533,013</u>	<u>589,203</u>
Net deferred tax assets	<u>\$2,737,828</u>	<u>\$1,622,042</u>

The Company has, at December 31, 2008, net operating loss carryforwards of approximately \$3,249,000 for state income tax purposes, which expire in years 2009 through 2022. The Company also has certain state income tax credits of \$245,000 at December 31, 2008 which expire in years 2009 through 2012. Due to the uncertainty relating to the realizability of all the carryforwards and credits, management currently considers it more likely than not that all related deferred tax assets will not be realized; thus, a \$129,000 valuation allowance has been provided against state tax carryforwards totaling \$3,249,000.

The Company had 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 FIN 48.

8. EMPLOYEE BENEFITS

Defined Contribution Plan—The Company sponsors a defined contribution 401(k) plan covering substantially all full-time employees. Employee contributions are voluntary. The Company matches 50% of the employee contributions up to a maximum of 6% of compensation. During the years ended

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8. EMPLOYEE BENEFITS (Continued)

December 31, 2008, 2007, and 2006, the Company recognized \$94,000, \$97,000, and \$90,000, respectively, in expenses related to this plan.

The Bank also has Postretirement Benefit Plans which provide retirement benefits to its key officers, Board members, certain former officers and former board members. The Bank also has a Life Insurance Endorsement Method Split Dollar Plan (“Split Dollar Life Insurance Plan”) for the same participants which provide death benefits for their designated beneficiaries through an endorsement of a portion of the death benefit otherwise payable to the Bank. Under the Post Retirement Benefit and Split Dollar Life Insurance Plans (“The Plans”), the Board purchased life insurance contracts on certain participants. During 2008, the Bank discontinued participation in The Plans and converted the key officers and active board members into defined supplemental retirement benefit plans and key officers into a life insurance bonus plan. Certain other participants were paid-out with seven participants remaining in The Plans.

The increase in cash surrender value of the contracts, less the Bank’s premiums, constitutes the Bank’s contribution to the plan each year. The Company recognized \$336,000, 353,000 and \$380,000 in 2008, 2007 and 2006, respectively, in income related to the insurance contracts. In the event the insurance contracts fail to produce positive returns, the Bank has no obligation to contribute to the plan. At December 31, 2008 and 2007, the cash surrender value of these insurance contracts was \$10,080,396 and \$9,744,891, respectively.

Defined Benefit Plans—During 2008, the Company converted the post retirement benefit plan for its key officers and active Board members into defined retirement benefit plans. The Company recognized \$379,000, \$300,000, and \$307,000 in 2008, 2007 and 2006 respectively, in expenses related to all retirement benefit plans. Upon completion of the conversion, most key officers and active Board members participating in the Split Dollar Life Insurance Plan gave up their interest in the death benefit portion of the plan. In exchange for relinquishing the postretirement death benefit, the Company implemented a Life Insurance Bonus Plan (“The Bonus Plan”) for most key officers to provide death benefits for their designated beneficiaries. Under the plan, the Bank purchased single premium cash value life insurance contracts on behalf of certain key officers. The Company pays the participating key officers an annual bonus, which is grossed-up for income tax purposes, to pay the annual premium on the insurance policies. In 2008, the Company incurred \$111,000 in expenses related to the Bonus Plan.

9. COMMITMENTS AND CONTINGENCIES

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily

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9. COMMITMENTS AND CONTINGENCIES (Continued)

represent future cash requirements. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and residential and commercial real estate. Commercial letters of credit are commitments issued by the Company to guarantee funding to a third party on behalf of a customer. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

	Approximate Contractual Amount	
	2008	2007
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$40,175,000	\$51,155,819
Commercial letters of credit	3,903,000	3,551,000

Mortgage-Backed Securities—In connection with servicing mortgage-backed securities guaranteed by Fannie Mae, the Company advances certain principal and interest payments to security holders prior to their collection from specific mortgagors. Additionally, the Company must remit certain payments of property taxes and insurance premiums in advance of collecting them from specific mortgagors and make certain payments of attorneys' fees and other costs related to loans in foreclosure. These amounts are included as receivables within other assets in the Consolidated Balance Sheets.

Leases—As of December 31, 2008, future minimum lease payments under all noncancelable lease agreements inclusive of sales tax and maintenance costs for the next five years and thereafter are as follows:

2009	\$ 467,675
2010	476,904
2011	492,625
2012	507,714
2013	520,875
2014 and Thereafter	1,333,972
	\$3,799,765

Rent expense in 2008, 2007, and 2006 was approximately \$479,000, \$516,000, and \$425,000, respectively.

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9. COMMITMENTS AND CONTINGENCIES (Continued)

Legal—During 2007, legal fees were awarded in the amount of \$200,000 related to a case brought to conclusion in 2006 in which a \$100,000 judgment was levied against the Company. The Company has accrued for these losses in the respective year of the judgments and are reflected in the December 31, 2007 and 2006 Consolidated Financial Statements. On March 14, 2008, the Court of Appeals of Georgia reversed the trial court and granted the Company a new trial on the compensatory damages. Other than that discussed above, the Company and the Bank are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based in part on the advice of counsel, the ultimate disposition of these matters will not have a material adverse impact on the Company's Consolidated Financial Statements.

10. STOCK OPTIONS

The Company has a Stock Incentive Plan which was approved in 1999. Under the 1999 Stock Incentive Plan, options are periodically granted to employees at a price not less than fair market value of the shares at the date of grant (or less than 110% of the fair market value if the participant owns more than 10% of the Company's outstanding Common Stock). The term of the stock incentive option may not exceed ten years from the date of grant; however, any stock incentive option granted to a participant who owns more than 10% of the Common Stock will not be exercisable after the expiration of five (5) years after the date the option is granted.

A summary of the status of the Company's stock options as of December 31, 2008, 2007, and 2006, and changes during the years ended on those dates is presented below:

	2008				2007		2006	
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding—beginning of year	107,676	\$10.80	7.08		73,176	\$10.92	60,176	\$10.92
Granted	31,000	8.50			34,500	10.50	16,000	11.45
Exercised	—	—			—	—	—	—
Expired/Terminated	(11,673)	11.65			—	—	(3,000)	13.41
Outstanding—end of year	<u>127,003</u>	<u>\$10.80</u>	6.78	<u>\$—</u>	<u>107,676</u>	<u>\$10.80</u>	<u>73,176</u>	<u>\$10.92</u>
Options exercisable at year-end	<u>71,927</u>	<u>\$10.63</u>	4.92	<u>\$—</u>	<u>57,676</u>	<u>\$10.63</u>	<u>52,299</u>	<u>\$ 9.76</u>
Shares available for grant	<u>203,434</u>				<u>234,434</u>		<u>268,934</u>	

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10. STOCK OPTIONS (Continued)

The following table summarizes information about stock options outstanding under the Company's plan at December 31, 2008:

	<u>Shares</u>	<u>Weighted Average Grant Day Fair Value</u>
Non-vested—beginning of year	50,000	\$ 3.61
Granted	31,000	\$ 2.89
Vested	(17,776)	\$ 4.44
Expired/Terminated	<u>(8,148)</u>	\$ 3.71
Non-vested—at year-end	<u>55,076</u>	\$ 3.17

The total fair value of options vested during 2008, 2007 and 2006 was \$67,000, \$56,000 and \$40,000 respectively. As of December 31, 2008 there was \$79,000 of total unrecognized stock-based compensation expense related to the 1999 Stock Incentive Plan. The cost will be recognized over a weighted average period of 1.51 years. Total compensation cost recognized during 2008, 2007 and 2006 was \$58,000, 53,000, and \$50,000 respectively.

11. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Basic and diluted net income per common and potential common share has been calculated based on the weighted average number of shares outstanding. The following schedule reconciles the

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11. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE (Continued)

numerators and denominator of the basic and diluted net income per common and potential common share for the years ended December 31, 2008, 2007, 2006.

	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Year ended December 31, 2008			
Basic earnings per share	\$1,023,152	2,095,753	\$0.49
Effect of dilutive securities: option to purchase common shares	<u>—</u>	<u>—</u>	<u>—</u>
Diluted earnings per share	<u>\$1,023,152</u>	<u>2,095,753</u>	<u>\$0.49</u>
Year ended December 31, 2007			
Basic earnings per share	\$2,855,920	2,089,906	\$1.37
Effect of dilutive securities: option to purchase common shares	<u>—</u>	<u>—</u>	<u>—</u>
Diluted earnings per share	<u>\$2,855,920</u>	<u>2,089,906</u>	<u>\$1.37</u>
Year ended December 31, 2006			
Basic earnings per share	\$3,002,889	2,087,002	\$1.44
Effect of dilutive securities: option to purchase common shares	<u>—</u>	<u>—</u>	<u>—</u>
Diluted earnings per share	<u>\$3,002,889</u>	<u>2,087,002</u>	<u>\$1.44</u>

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures or monitors certain of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities that are elected to be accounted for under SFAS 159 as well as certain assets and liabilities in which fair value is the primary basis of accounting. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value, which are in accordance with SFAS 157 and FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active,” when applicable.

In accordance with SFAS 157, the Company applied the following fair value hierarchy:

Level 1—Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasury and other highly liquid investments are actively traded in over-the-counter markets.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, certain derivative contracts and impaired loans.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

FASB Staff Position No. FAS 157-2 delays the implementation of SFAS 157 until the first quarter of 2009 with respect to goodwill, other intangible assets, real estate and other assets acquired through foreclosure and other non-financial assets measured at fair value on a nonrecurring basis.

The following tables present financial assets and financial liabilities measured at fair value on a recurring basis and the change in fair value for those specific financial instruments in which fair value has been elected.

Fair Value Measurements at December 31, 2008					
Assets/Liabilities Measured at Fair Value December 31, 2008	Quoted Prices In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes in Fair Values Included in Current- Period Earnings	
Assets					
Securities available for sale	\$87,960,590	\$—	\$87,960,590	\$—	\$ —
Liabilities					
FHLB Advances	28,712,560	—	28,712,560	—	—

Fair Value Measurements at December 31, 2007					
Assets/Liabilities Measured at Fair Value December 31, 2007	Quoted Prices In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes in Fair Values Included in Current- Period Earnings	
Assets					
Securities available for sale	\$59,677,477	\$—	\$59,677,477	\$—	\$ —
Liabilities					
FHLB Advances	18,944,408	—	18,944,408	—	99,546

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

On July 2, 2007, the Company retired its \$10 million FHLB advance with a fixed rate of 5.82% and realized non-interest income of \$99,546 as part of a continual effort to manage the interest rate sensitivity of its assets and liabilities. The FHLB Advances outstanding at December 31, 2008 and 2007 is a Daily Rate Credit advance which is priced daily off of the Fed Funds rates.

The Company is predominantly an asset based lender with real estate serving as collateral on a majority of its loans. The fair value of collateral dependent loans is based on the fair value of the collateral securing these loans. Substantially all impaired loans are secured by real estate. The fair value of this real estate is generally determined based upon appraisals performed by a certified or licensed appraiser using inputs such as absorption rates, capitalization rates, and comparables. Management also considers other factors or recent developments that could result in adjustments to the collateral value estimates indicated in the appraisals such as changes in absorption rates or market conditions from the time of valuation. These measurements are classified as Level 2 within the valuation hierarchy. The aggregate carrying amount of impaired loans at December 31, 2008 was \$22,489,000. Impaired loans are considered to be a nonrecurring item under SFAS 157.

Following are disclosures of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in the value of financial instruments held by the Company since purchase, origination, or issuance.

Cash, Due From Banks, Federal Funds Sold, Interest-Bearing Deposits With Banks, and Certificates of Deposits—Carrying amount is a reasonable estimate of fair value due to the short-term nature of such items.

Investment Securities—Fair value of investment securities are based on quoted market prices.

Other Investments—The carrying amount of other investments approximates its fair value.

Loans—The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value.

Cash Surrender Value of Life Insurance—Cash values of life insurance policies are carried at the value for which such policies may be redeemed for cash.

Deposits—The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed rate certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Notes Payable—Notes payable bear a variable interest rate and the carrying value approximates fair value.

Advances from Federal Home Loan Bank—The fair values of advances from the Federal Home Loan Bank are estimated by discounting the future cash flows using the rates currently available to the Bank for debt with similar remaining maturities and terms.

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

Limitations—Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments; for example, premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The carrying values and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007 are as follows:

	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Cash and due from banks	\$ 6,870	\$ 6,870	\$ 8,188	\$ 8,188
Interest-bearing deposits with banks	9,276	9,276	522	522
Certificates of deposit	345	345	100	100
Investment securities	92,544	92,658	67,051	67,115
Other investments	2,287	2,287	1,842	1,842
Loans—net	210,306	212,756	235,364	231,722
Cash surrender value of life insurance	10,080	10,080	9,745	9,745
Financial liabilities:				
Deposits	281,913	279,323	279,599	267,932
Notes payable	240	240	340	340
Advances from Federal Home Loan Bank	28,713	28,713	18,944	18,944

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	<u>Notional amount</u>	<u>Estimated fair value</u>	<u>Notional amount</u>	<u>Estimated fair value</u>
Off-balance-sheet financial instruments:				
Commitments to extend credit	\$ 40,175	—	\$ 51,156	—
Commercial letters of credit	3,903	—	3,551	—

13. STOCKHOLDERS' EQUITY

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the various regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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13. STOCKHOLDERS' EQUITY (Continued)

The Company's and the Bank's actual capital amounts and ratios are also presented in the table below (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total capital (to risk weighted assets):						
Consolidated	\$36,253	15%	\$19,921	8%	N/A	N/A
Bank	35,951	14%	19,901	8%	\$24,876	10%
Tier I capital (to risk weighted assets):						
Consolidated	33,147	13%	9,961	4%	N/A	N/A
Bank	32,850	13%	9,950	4%	14,926	6%
Tier I capital (to average assets):						
Consolidated	33,147	10%	13,404	4%	N/A	N/A
Bank	32,850	10%	13,392	4%	16,740	5%
As of December 31, 2007						
Total capital (to risk weighted assets):						
Consolidated	\$35,444	14%	\$20,759	8%	N/A	N/A
Bank	35,198	14%	20,737	8%	\$25,921	10%
Tier I capital (to risk weighted assets):						
Consolidated	32,597	13%	10,379	4%	N/A	N/A
Bank	32,351	12%	10,369	4%	15,553	6%
Tier I capital (to average assets):						
Consolidated	32,597	10%	13,503	4%	N/A	N/A
Bank	32,351	10%	13,491	4%	16,864	5%

Dividend Limitation—The amount of dividends paid by the Bank to the Company is limited by various banking regulatory agencies. Any such dividends will be subject to maintenance of required capital levels. The Georgia Department of Banking and Finance requires prior approval for a bank to pay dividends in excess of 50% of its prior year's earnings. The amount of dividends available from the Bank without prior approval from the regulators for payment in 2008 is approximately \$603,000.

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14. RELATED-PARTY TRANSACTIONS

Certain of the Company's directors, officers, principal stockholders, and their associates were customers of, or had transactions with, the Company or the Bank in the ordinary course of business during 2008. Some of the Company's directors are directors, officers, trustees, or principal securities holders of corporations or other organizations that also were customers of, or had transactions with, the Company or the Bank in the ordinary course of business during 2008.

All outstanding loans and other transactions with the Company's directors, officers, and principal shareholders were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and, when made, did not involve more than the normal risk of collectibility or present other unfavorable features.

The following table summarizes the activity in these loans during 2008 and 2007:

	Years Ended December 31,	
	2008	2007
Balance at beginning of year	\$ 5,239,928	\$ 4,965,292
New loans	1,603,314	1,634,659
Repayments	<u>(1,841,657)</u>	<u>(1,360,023)</u>
Balance—end of year	<u>\$ 5,001,585</u>	<u>\$ 5,239,928</u>

Deposits by directors and executive officers of the Company and the Bank, and associates of such persons, totaled \$9,160,763 and \$3,732,000 at December 31, 2008 and 2007, respectively.

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15. SUPPLEMENTARY INCOME STATEMENT INFORMATION

Components of other operating expenses in excess of 1% of total interest income and other income in any of the respective years are approximately as follows:

	For the years ended		
	2008	2007	2006
Professional services—legal	\$ 396,779	\$ 410,469	\$ 294,191
Professional services—other	745,391	643,244	530,634
Stationery and supplies	182,314	164,408	172,123
Advertising	326,763	335,450	534,396
Data processing	608,122	619,003	667,401
ATM Charges	427,665	443,669	432,168
Postage	232,727	199,885	245,858
Telephone	343,689	352,017	364,492
Amortization of core deposit intangible	53,240	111,899	405,192
Security and protection expense	356,558	293,739	310,335
Other benefit expenses	379,187	299,506	307,034
Other losses	100,811	363,370	157,401
Other miscellaneous expenses	1,230,713	1,090,137	1,015,525
	<u>\$5,383,959</u>	<u>\$5,326,796</u>	<u>\$5,436,750</u>

16. CONDENSED FINANCIAL INFORMATION OF CITIZENS BANCSHARES CORPORATION (PARENT ONLY)

	December 31, 2008	December 31, 2007
Balance Sheets		
Assets:		
Cash	\$ 230,004	\$ 380,197
Investment in Bank	33,360,719	32,887,423
Other assets	334,695	242,716
	<u>\$33,925,418</u>	<u>\$33,510,336</u>
Liabilities and stockholders' equity:		
Note payable	\$ 239,647	\$ 339,647
Other liabilities	27,615	37,490
Total liabilities	267,262	377,137
Stockholders' equity	33,658,156	33,133,199
	<u>\$33,925,418</u>	<u>\$33,510,336</u>

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16. CONDENSED FINANCIAL INFORMATION OF CITIZENS BANCSHARES CORPORATION
(PARENT ONLY) (Continued)

	For the Years Ended December 31,		
	2008	2007	2006
Statements of Income and Comprehensive Income			
Dividends from subsidiaries	\$ 529,686	\$ 5,992,821	\$ 797,528
Other revenue	36	3,690	72
Total revenue	<u>529,722</u>	<u>5,996,511</u>	<u>797,600</u>
Interest expense	14,074	250,757	461,590
Other expense	261,560	261,981	232,423
Total expenses	<u>275,634</u>	<u>512,738</u>	<u>694,013</u>
Income before income tax benefit and equity in undistributed earnings of the subsidiaries . . .	254,088	5,483,773	103,587
Income tax benefit	<u>91,978</u>	<u>156,798</u>	<u>235,403</u>
Income before equity in undistributed earnings of the subsidiaries	346,066	5,640,571	338,990
Equity in undistributed earnings (losses) of the subsidiaries	<u>677,086</u>	<u>(2,784,651)</u>	<u>2,663,899</u>
Net income	1,023,152	2,855,920	3,002,889
Change in other comprehensive income (loss) .	<u>27,619</u>	<u>584,820</u>	<u>249,492</u>
Comprehensive income	<u>\$1,050,771</u>	<u>\$ 3,440,740</u>	<u>\$3,252,381</u>

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

16. CONDENSED FINANCIAL INFORMATION OF CITIZENS BANCSHARES CORPORATION
(PARENT ONLY) (Continued)

	Years Ended December 31,		
	2008	2007	2006
Statements of Cash Flows			
Cash flows from operating activities—			
Net income	\$1,023,152	\$ 2,855,920	\$ 3,002,889
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of the subsidiaries	(677,086)	2,784,651	(2,663,899)
Stock based compensation plan	57,860	53,132	50,480
Change in other assets	(91,979)	(15,798)	(15,402)
Change in other liabilities	(9,875)	16,268	(26,423)
Net cash provided by operating activities . . .	<u>302,072</u>	<u>5,694,173</u>	<u>347,645</u>
Cash flows from financing activities:			
Payment on note payable	(100,000)	—	(100,000)
Retirement of junior subordinated debentures	—	(5,000,000)	—
Dividends paid	(397,981)	(396,893)	(355,732)
Sale (purchase) of treasury stock	45,716	59,794	(11,812)
Net cash used in financing activities	<u>(452,265)</u>	<u>(5,337,099)</u>	<u>(467,544)</u>
Net change in cash	(150,193)	357,074	(119,899)
Cash:			
Beginning of year	380,197	23,123	143,022
End of year	<u>\$ 230,004</u>	<u>\$ 380,197</u>	<u>\$ 23,123</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 14,074	\$ 250,757	\$ 461,590
Income taxes	\$1,108,000	\$ 751,522	\$ 960,000
Noncash investing activity—			
Change in Bank's unrealized gain (loss) on investment securities available for sale— net of tax	\$ 27,619	\$ 584,820	\$ 249,492

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents the Company's quarterly financial data for the years ended December 31, 2008 and 2007 (amounts in thousands, except per share amounts):

	<u>First Quarter 2008</u>	<u>Second Quarter 2008</u>	<u>Third Quarter 2008</u>	<u>Fourth Quarter 2008</u>
Interest Income	\$5,310	\$5,114	\$4,781	\$4,776
Interest expense	1,911	1,774	1,537	1,204
Net Interest income	3,399	3,340	3,244	3,572
Provision for loans loss	105	1,004	130	1,250
Non-interest income	1,331	1,298	1,469	1,270
Non-interest expense	3,659	4,022	3,753	3,937
Income (loss) before income taxes	966	(388)	830	(345)
Income tax expense (benefit)	253	(224)	212	(201)
Net income (loss)	\$ 713	\$ (164)	\$ 618	\$ (144)
Basic net income (loss) per common and common equivalent share outstanding	<u>\$ 0.34</u>	<u>\$ (0.08)</u>	<u>\$ 0.29</u>	<u>\$ (0.06)</u>
Diluted net income (loss) per common and common equivalent share outstanding	<u>\$ 0.34</u>	<u>\$ (0.08)</u>	<u>\$ 0.29</u>	<u>\$ (0.06)</u>
	<u>First Quarter 2007</u>	<u>Second Quarter 2007</u>	<u>Third Quarter 2007</u>	<u>Fourth Quarter 2007</u>
Interest Income	\$5,425	\$5,524	\$5,702	\$5,741
Interest expense	2,066	2,094	2,146	2,082
Net Interest income	3,359	3,430	3,556	3,659
Provision for loans loss	—	—	—	—
Non-interest income	1,029	1,217	1,110	1,451
Non-interest expense	3,748	3,809	3,824	3,758
Income before income taxes	640	838	842	1,352
Income tax expense	105	168	174	369
Net income	\$ 535	\$ 670	\$ 668	\$ 983
Basic net income per common and common equivalent share outstanding	<u>\$ 0.26</u>	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.47</u>
Diluted net income per common and common equivalent share outstanding	<u>\$ 0.26</u>	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.47</u>

CITIZENS BANCSHARES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AS OF DECEMBER 31, 2008 AND 2007 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2008

18. SUBSEQUENT EVENTS

Troubled Asset Relief Program—On March 6, 2009, as part of the U.S. Department of the Treasury (the “Treasury”) Troubled Asset Relief Program (“TARP”) Capital Purchase Program, the Company entered into a Letter Agreement and a Securities Purchase Agreement with the Treasury, pursuant to which the Company agreed to issue and sell, and the Treasury agreed to purchase 7,462 shares (the “Preferred Shares”) of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000, for an aggregate purchase price of \$7,462,000 in cash.

This transaction closed on March 6, 2009. The issuance and sale of these securities was a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The Preferred Shares qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Company may, subject to consultation with the Federal Reserve Bank of Atlanta, redeem the Preferred Shares at any time for its aggregate liquidation amount plus any accrued and unpaid dividends without first raising additional capital in an equity offering.

Acquisition On March 27, 2009, the Company’s subsidiary, Citizens Trust Bank (“Citizens”), acquired the Lithonia branch (the “Branch”) of The Peoples Bank, a Georgia state bank (“Peoples”). Citizens acquired the in-market deposits of the Branch which totaled over \$50 million. Under the Agreement, Citizens also acquired the branch office and related real estate and certain personal property at the Branch. Citizens paid a premium of \$3.3 million in cash based upon the amount of the deposits assumed at the closing of the transaction.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a)(1) The list of all financial statements is included at Item 8.
- (a)(2) The financial statement schedules are either included in the financial statements or are not applicable.
- (a)(3) Exhibit List

Exhibit Number	Exhibit
3.1	The Articles of Incorporation.(1)
3.2	Amendment to the Articles of Incorporation.(2)
3.3	Bylaws.(3)
4.1	Instruments Defining the Rights of Security Holders.(4)
10.1*	Employment Agreement dated January 30, 1998 between James E. Young and Citizens Bancshares Corporation.(5)
10.2*	Citizens Bancshares Corporation Employee Stock Purchase Plan.(5)
10.3*	Citizens Bancshares Corporation 1999 Incentive Stock Option Plan.(5)
10.5	Stock Purchase Agreement by and between Citizens Bancshares Corporation and Fannie Mae dated September 10, 1999 and amended as of October 12, 1999.(6)
10.6	Stock Exchange Agreement between Citizens Bancshares Corporation and Fannie Mae dated November 10, 1999.(6)
10.7*	Change in Control Agreement by and between James E. Young and Citizens Bancshares Corporation(7)
10.8*	Change in Control Agreement by and between Cynthia Day and Citizens Bancshares Corporation(7)
10.9*	Change in Control Agreement by and between Samuel J. Cox and Citizens Bancshares Corporation(7)
10.10*	Change in Control Agreement by and between Robert E. Nesbitt and Citizens Bancshares Corporation(7)
10.11*	Form of Director Supplemental Executive Retirement Plan(8)
10.12*	Senior Officer Supplemental Executive Retirement Plan(9)
10.13*	Supplemental Executive Retirement Plan Joinder Agreement for James S. Young(10)
10.14*	Supplemental Executive Retirement Plan Joinder Agreement for Cynthia N. Day(11)
10.15*	Supplemental Executive Retirement Plan Joinder Agreement for Samuel J. Cox(12)
10.16*	Supplemental Executive Retirement Plan Joinder Agreement for Robert E. Nesbit(13)
10.17*	Supplemental Executive Retirement Plan Joinder Agreement for Kevin Wilson(14)
10.18*	First Amendment to Employment Agreement by and between James E. Young and Citizens Bancshares Corporation.

Exhibit Number	Exhibit
10.19*	First Amendment to Change in Control Agreement by and between James E. Young and Citizens Bancshares Corporation.
10.20*	First Amendment to Change in Control Agreement by and between Cynthia Day and Citizens Bancshares Corporation.
10.21*	First Amendment to Change in Control Agreement by and between Samuel J. Cox and Citizens Bancshares Corporation.
10.22*	First Amendment to Change in Control Agreement by and between Robert E. Nesbitt and Citizens Bancshares Corporation.
10.23	Letter Agreement, dated March 6, 2009, including Securities Purchase Agreement—Standard Terms, incorporated by reference therein, between the Company and the United States Department of the Treasury.(15)
10.24	Side Letter, dated March 6, 2009, between the Company and the United States Department of the Treasury, regarding the American Recovery and Reinvestment Act of 2009.(16)
10.25	Side Letter, dated March 6, 2009, between the Company and the United States Department of the Treasury, pursuant to Section 113(d)(3) of the Emergency Economic Stabilization Act of 2008.(17)
10.26	Side Letter, dated March 6, 2009, between the Company and the United States Department of the Treasury.(18)
10.27	Form of Waiver.(19)
21.1	List of subsidiaries.(20)
23.1	Consent of Elliott Davis, LLC.
24.1	Power of Attorney (appears on the signature page of this Annual Report on Form 10-K)
31.1	Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Operating Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications by Chief Executive Officer, Chief Operating Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

* Compensatory plan or arrangement.

- (1) Incorporated by reference to exhibit of same number in the Company's Form 10-QSB for the quarter ending September 30, 2001.
- (2) Incorporated by reference to Exhibits 3.1 and 3.2 of the Company's Form 8-K dated March 6, 2009.
- (3) Incorporated by reference to Exhibit 3.2 in the Company's Registration Statement on Form 10, File No. 0-14535.

- (4) See the Articles of Incorporation of the Company at Exhibit 3.1 and 3.2 hereto and the Bylaws of the Company at Exhibit 3.3 hereto.
 - (5) Incorporated by reference to exhibit of same number in the Company's 2000 Form 10-KSB.
 - (6) Incorporated by reference to exhibit of same number in the Company's Registration Statement on Form S-3, File No. 333-91003.
 - (7) Incorporated by reference to exhibit of same number in the Company's Form 10-K for the year ended December 31, 2005.
 - (8) Incorporated by reference to exhibit of same number in the Company's Form 10-K for the year ended December 31, 2007.
 - (9) Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated August 7, 2008.
 - (10) Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated August 7, 2008.
 - (11) Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated August 7, 2008.
 - (12) Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K dated August 7, 2008.
 - (13) Incorporated by reference to Exhibit 10.5 of the Company's Form 8-K dated August 7, 2008.
 - (14) Incorporated by reference to Exhibit 10.6 of the Company's Form 8-K dated August 7, 2008.
 - (15) Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K dated March 6, 2009.
 - (16) Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K dated March 6, 2009.
 - (17) Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K dated March 6, 2009.
 - (18) Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K dated March 6, 2009.
 - (19) Incorporated by reference to Exhibit 10.5 of the Company's Form 8-K dated March 6, 2009.
 - (20) The Company has only one subsidiary, Citizens Trust Bank.
- (b) The Exhibits not incorporated herein by reference are submitted as a separate part of this report.
- (c) Financial Statement Schedules: The financial statement schedules are either included in the financial statements or are not applicable.

SIGNATURES

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

CITIZENS BANCSHARES CORPORATION

By: /s/ JAMES E. YOUNG

James E. Young
President and Chief Executive Officer

Date: March 31, 2009

POWER OF ATTORNEY

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RAY ROBINSON</u> Ray Robinson	Chairman of the Board	March 31, 2009
<u>/s/ ROBERT L. BROWN</u> Robert L. Brown	Director	March 31, 2009
<u>/s/ STEPHEN ELMORE</u> Stephen Elmore	Director	March 31, 2009
<u>/s/ C. DAVID MOODY</u> C. David Moody	Director	March 31, 2009

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MERCY P. OWENS</u> Mercy P. Owens	Director	March 31, 2009
<u>/s/ DONALD RATAJCZAK</u> Donald Ratajczak	Director	March 31, 2009
<u>/s/ H. JEROME RUSSELL</u> H. Jerome Russell	Director	March 31, 2009
<u>/s/ JAMES E. WILLIAMS</u> James E. Williams	Director	March 31, 2009
<u>/s/ JAMES E. YOUNG</u> James E. Young	Director, President and Chief Executive Officer*	March 31, 2009
<u>/s/ CYNTHIA N. DAY</u> Cynthia N. Day	Senior Executive Vice President and Chief Operating Officer**	March 31, 2009
<u>/s/ SAMUEL J. COX</u> Samuel J. Cox	Senior Vice President and Chief Financial Officer***	March 31, 2009

* Principal executive officer

** Principal operating officer

*** Principal accounting and financial officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-86599 and 33-91003 of Citizens Bancshares Corporation on Form S-8 and Form S-3, respectively, of our report dated March 27, 2009, appearing in the Annual Report on Form 10-K of Citizens Bancshares Corporation for the year ended December 31, 2008.

Elliott Davis, LLC

Columbia, South Carolina

March 27, 2009

Certification

I, James E. Young, Chief Executive Officer of Citizens Bancshares Corporation, certify that:

1. I have reviewed the annual report on Form 10-K of Citizens Bancshares Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

/s/ JAMES E. YOUNG

James E. Young
Chief Executive Officer

Certification

I, Cynthia N. Day, Chief Operating Officer of Citizens Bancshares Corporation, certify that:

1. I have reviewed the annual report on Form 10-K of Citizens Bancshares Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

/s/ CYNTHIA N. DAY

Cynthia N. Day
Chief Operating Officer

Certification

I, Samuel J. Cox, Chief Financial Officer of Citizens Bancshares Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens Bancshares Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

/s/ SAMUEL J. COX

Samuel J. Cox
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that this Annual Report on Form 10-K for the year ended December 31, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This 31st day of March, 2009.

/s/ JAMES E. YOUNG

Chief Executive Officer
Citizens Bancshares Corporation

/s/ CYNTHIA N. DAY

Chief Operating Officer
Citizens Bancshares Corporation

/s/ SAMUEL J. COX

Chief Financial Officer
Citizens Bancshares Corporation