

# **Citizens Bancshares Corporation**

## ***Report on Consolidated Financial Statements***

***As of and for the years ended December 31, 2025 and 2024***

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# Citizens Bancshares Corporation

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## Independent Auditor's Report

The Board of Directors  
Citizens Bancshares Corporation  
Olanta, South Carolina

### Opinion

We have audited the consolidated financial statements of Citizens Bancshares Corporation and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina  
April 16, 2026

# Citizens Bancshares Corporation

## Consolidated Balance Sheets

As of December 31, 2025 and 2024

(Dollars in thousands, except per share amounts)

	2025	2024
<b>Assets:</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 12,595	\$ 13,677
Interest-bearing deposits	130,389	139,387
Total cash and cash equivalents	<u>142,984</u>	<u>153,064</u>
Certificates of deposit with other financial institutions	4,500	8,500
Investment securities:		
Securities available-for-sale, at fair value (amortized cost of \$276,615 and \$243,604, at December 31, 2025 and 2024, respectively)	268,746	228,086
Nonmarketable equity securities	1,375	1,326
Total investment securities	<u>270,121</u>	<u>229,412</u>
Loans held for sale	195	-
Loans receivable	627,898	575,852
Less allowance for credit losses	<u>(7,514)</u>	<u>(6,310)</u>
Loans, net	<u>620,384</u>	<u>569,542</u>
Premises, furniture and equipment, net	28,316	28,641
Bank owned life insurance	10,274	10,563
Goodwill	19,198	18,483
Core deposit intangible	4,897	4,592
Accrued interest receivable	3,795	3,703
Other real estate owned	930	970
Deferred tax asset	1,754	3,103
Lease right of use asset	392	495
Other assets	1,749	1,960
Total assets	<u>\$ 1,109,489</u>	<u>\$ 1,033,028</u>
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing transaction accounts	\$ 257,183	\$ 232,186
Interest-bearing transaction accounts	194,396	182,871
Savings	426,107	406,885
Certificates of deposit \$250,000 and over	19,806	16,917
Other time deposits	77,718	77,826
Total deposits	<u>975,210</u>	<u>916,685</u>
Subordinated debenture	24,631	24,572
Securities sold under agreement to repurchase	3,325	2,429
Accrued interest payable	880	866
Lease liability	392	495
Other liabilities	3,923	3,060
Total liabilities	<u>1,008,361</u>	<u>948,107</u>
<b>Commitments and contingencies (Notes 11, 19, and 21)</b>		
<b>Shareholders' equity:</b>		
Common stock, \$1.00 par value; 2,500,000 shares authorized; 2,392,021 shares issued, and 1,951,320 outstanding at December 31, 2025, and 2024	2,392	2,392
Capital surplus	7,999	7,999
Retained earnings	105,702	95,538
Treasury stock, at cost (440,701 shares at December 31, 2025 and 2024)	(8,749)	(8,749)
Accumulated other comprehensive loss	<u>(6,216)</u>	<u>(12,259)</u>
Total shareholders' equity	<u>101,128</u>	<u>84,921</u>
Total liabilities and shareholders' equity	<u>\$ 1,109,489</u>	<u>\$ 1,033,028</u>

See Notes to Consolidated Financial Statements

**Citizens Bancshares Corporation**  
**Consolidated Statements of Income**  
**For the years ended December 31, 2025 and 2024**

(Dollars in thousands, except per share amounts)

	<u>2025</u>	<u>2024</u>
<b>Interest income</b>		
Loans, including fees	\$ 38,384	\$ 34,819
Investment securities:		
Taxable	8,029	6,390
Tax-exempt	910	858
Nonmarketable equity securities	53	56
Federal funds sold	2,097	1,830
Deposits with other banks	<u>3,891</u>	<u>5,616</u>
Total interest income	<u>53,364</u>	<u>49,569</u>
<b>Interest expense</b>		
Deposits	12,080	12,819
Other borrowings	1,122	1,122
Other interest expense	<u>55</u>	<u>68</u>
Total interest expense	<u>13,257</u>	<u>14,009</u>
Net interest income	40,107	35,560
Provision for credit losses – loans	1,483	835
Provision for (reversal of) credit losses – unfunded commitments	<u>25</u>	<u>(649)</u>
<b>Net interest income after provision for credit losses</b>	<u>38,599</u>	<u>35,374</u>
<b>Noninterest income</b>		
Service charges on deposit accounts	3,050	2,888
Gain on sale of loans held for sale	118	68
Income from cash surrender value of life insurance	440	218
Gain on sale of premises, furniture and equipment	90	-
Loss on sale of securities available-for-sale	(92)	-
Gain on sale of other real estate owned	28	31
Brokerage fees	762	579
Credit card and interchange fees	3,102	2,958
Other operating income	<u>735</u>	<u>763</u>
Total noninterest income	<u>8,233</u>	<u>7,505</u>
<b>Noninterest expense</b>		
Salaries and employee benefits	17,769	15,530
Net occupancy	2,825	2,570
Furniture and equipment	1,689	1,496
FDIC assessments	500	490
Communications	196	206
Net cost of other real estate owned	22	32
Branch acquisition related expenses	433	-
Other operating expense	<u>9,828</u>	<u>9,598</u>
Total noninterest expense	<u>33,262</u>	<u>29,922</u>
Income before income taxes	13,570	12,957
Income tax expense	<u>2,548</u>	<u>2,702</u>
<b>Net income</b>	<u>\$ 11,022</u>	<u>\$ 10,255</u>
<b>Earnings per share</b>		
Basic	<u>\$ 5.65</u>	<u>\$ 5.21</u>
Diluted	<u>\$ 5.45</u>	<u>\$ 5.03</u>

See Notes to Consolidated Financial Statements

**Citizens Bancshares Corporation**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2025 and 2024**

(Dollars in thousands)

	<u>2025</u>	<u>2024</u>
<b>Net income</b>	\$ 11,022	\$ 10,255
<b>Other comprehensive income (loss)</b>		
Unrealized holding gains (losses) arising during the period	7,741	(1,381)
Tax effect	(1,626)	290
Realized losses on securities available-for-sale	(92)	-
Tax effect	<u>20</u>	<u>-</u>
<b>Other comprehensive income (loss), net of tax</b>	<u>6,043</u>	<u>(1,091)</u>
<b>Comprehensive income</b>	<u>\$ 17,065</u>	<u>\$ 9,164</u>

See Notes to Consolidated Financial Statements

## Citizens Bancshares Corporation

### Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2025 and 2024

(Dollars in thousands, except shares)

	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
<b>Balance,</b> <b>December 31, 2023</b>	<u>2,392,021</u>	<u>\$ 2,392</u>	<u>\$ 7,999</u>	<u>\$ 86,103</u>	<u>\$ (8,100)</u>	<u>\$ (11,168)</u>	<u>\$ 77,226</u>
Net income	-	-	-	10,255	-	-	10,255
Treasury stock purchase	-	-	-	-	(649)	-	(649)
Other comprehensive loss, net of tax	-	-	-	-	-	(1,091)	(1,091)
Cash dividends paid (\$0.42 per share)	-	-	-	(820)	-	-	(820)
<b>Balance,</b> <b>December 31, 2024</b>	<u>2,392,021</u>	<u>\$ 2,392</u>	<u>\$ 7,999</u>	<u>\$ 95,538</u>	<u>\$ (8,749)</u>	<u>\$ (12,259)</u>	<u>\$ 84,921</u>
Net income	-	-	-	11,022	-	-	11,022
Other comprehensive income, net of tax	-	-	-	-	-	6,043	6,043
Cash dividends paid (\$0.44 per share)	-	-	-	(858)	-	-	(858)
<b>Balance,</b> <b>December 31, 2025</b>	<u>2,392,021</u>	<u>\$ 2,392</u>	<u>\$ 7,999</u>	<u>\$ 105,702</u>	<u>\$ (8,749)</u>	<u>\$ (6,216)</u>	<u>\$ 101,128</u>

See Notes to Consolidated Financial Statements

**Citizens Bancshares Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2025 and 2024**

(Dollars in thousands)

	<u>2025</u>	<u>2024</u>
<b>Operating activities</b>		
Net income	\$ 11,022	\$ 10,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses – loans	1,483	835
Provision for (reversal of) credit losses – unfunded commitments	25	(649)
Depreciation	1,260	1,237
Amortization of intangible assets	782	708
Origination of loans held for sale	(3,512)	(2,074)
Proceeds of loans held for sale	3,366	2,142
Gain on sale of loans held for sale	(49)	(68)
Loss on sale of securities available-for-sale	92	-
Gain on sale of premises, furniture and equipment	(90)	-
Gain on sale of other real estate owned	(28)	(31)
Discount accretion on purchased loans	474	(585)
Discount accretion and premium amortization on investment securities	(347)	(4)
Amortization of subordinated debentures	59	59
Net change in accrued interest receivable	66	(422)
Net change in accrued interest payable	(87)	190
Net change in BOLI and cash surrender value of life insurance	84	(246)
Net change in deferred tax asset	(257)	342
Net change in other assets	211	(525)
Net change in other liabilities	838	(606)
Net cash provided by operating activities	<u>15,392</u>	<u>10,558</u>
<b>Investing activities</b>		
Cash paid for branch acquisition, net of cash and cash equivalents acquired	26,138	-
Purchases of securities available-for-sale	(86,321)	(55,494)
Proceeds from sale of securities available-for-sale	4,358	-
Net change in nonmarketable equity securities	(49)	21
Net change in loans made to customers	(39,709)	(31,798)
Net change in nonmarketable equity securities	(49)	2
Net change in certificates of deposit with other financial institutions	4,000	750
Purchases of premises and equipment, net	(855)	(1,826)
Proceeds from disposal of premises and equipment	86	66
Proceeds from sales of other real estate owned	198	321
Proceeds from payout and surrender of life insurance policies	205	-
Proceeds from calls, maturities and paydowns of securities available-for-sale	49,207	29,754
Net cash used in investing activities	<u>(42,742)</u>	<u>(59,206)</u>
<b>Financing activities</b>		
Net change in demand deposits, interest-bearing transactions accounts and savings accounts	32,136	67,756
Net change in certificates of deposit and other time deposits	(14,904)	(3,202)
Net change in securities sold under agreement to repurchase	896	(914)
Cash dividends paid	(858)	(820)
Purchase of treasury stock	-	(649)
Net cash provided by financing activities	<u>17,270</u>	<u>62,171</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(10,080)</u>	<u>13,523</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>153,064</u>	<u>139,541</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 142,984</u>	<u>\$ 153,064</u>

See Notes to Consolidated Financial Statements

**Citizens Bancshares Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2025 and 2024**

(Dollars in thousands)

	<u>2025</u>	<u>2024</u>
<b>Non-cash investing and financing activities</b>		
Unrealized gain (loss) on securities available-for-sale	\$ 7,649	\$ (1,091)
Transfer of loans to other real estate owned	\$ 130	\$ 170
Lease liabilities arising from obtaining right of use assets	\$ -	\$ 260
Assets acquired, net of cash	\$ 13,454	\$ -
Liabilities assumed	\$ 41,394	\$ -
Core deposit Intangible	\$ 1,087	\$ -
Goodwill	\$ 715	\$ -
<b>Cash paid during the year for:</b>		
Interest	\$ 13,302	\$ 13,819
Income taxes	\$ 2,548	\$ 2,507

See Notes to Consolidated Financial Statements

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# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 1. Summary of Significant Accounting Policies

#### Basis of presentation and consolidation:

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

#### Management's estimates:

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

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

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

#### Concentrations of credit risk:

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

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

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Concentrations of credit risk, continued:

Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

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

##### Cash and cash equivalents:

For purposes of the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks" and "Interest-bearing balances." Cash and cash equivalents have an original maturity of three months or less.

##### Certificates of deposits with other financial institutions:

The Company's certificates of deposits with other institutions represent funds maintained on deposit at various financial institutions. The carrying amount of this account is at cost.

##### Investment securities:

All debt securities have been designated as available-for-sale by the Company and are carried at amortized cost and adjusted to their estimated fair value. The unrealized gain or loss is recorded in shareholders' equity net of the deferred tax effects. Management does not actively trade securities classified as available-for-sale but intends to hold these securities for an indefinite period of time and may sell them prior to maturity to achieve certain objectives. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sale are recorded on the trade date and determined using the specific identification method.

##### Nonmarketable equity securities:

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

## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Loans held for sale:

Loans held for sale consist of residential mortgage loans the Company originates for sale to secondary market investors. They are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Fees collected in conjunction with origination activities are deferred as part of the cost basis of the loan and recognized when the loan is sold. Gains or losses on sales are recognized when the loans are sold and are determined as the difference between the sales price and the carrying value of the loans. The Company does not retain servicing of these loans once they are sold. The Company had \$195 thousand of loans held for sale as of December 31, 2025, and no loans held for sale as of December 31, 2024. The Company recognized gains on loans sold during 2025 and 2024 totaling \$118 thousand and \$68 thousand, respectively.

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

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

##### Allowance for credit losses – available-for-sale securities:

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2025 and 2024 there was no allowance for credit loss related to the available-for-sale portfolio.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Allowance for credit losses – available-for-sale securities, continued:

Accrued interest receivable on available-for-sale debt securities at December 31, 2025 and 2024 totaled \$1.5 million and \$1.5 million, respectively and was excluded from the estimate of credit losses.

#### Loans receivable:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans at December 31, 2025 and 2024 totaled \$2.2 million and \$2.2 million, respectively and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

#### Allowance for credit losses – loans:

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Allowance for credit losses – loans, continued:

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company calculates the allowance for credit losses on loans for each pool of loans using a remaining life loss methodology with a four quarter reasonable and supportable forecast period and an immediate reversion period. The Company has applied the loss history from a designated peer group of ten institutions of similar size, portfolio makeup and geography. Management believes that the peer group's historical loss experience provides the best basis for its assessment of expected credit losses on loans to determine the allowance for credit losses on loans. The Company then forecasts the calculated historical loss rates over the calculated remaining life of loans by pool. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using a weighted-average remaining maturity methodology:

- Real estate - construction – Construction, land development, and other land loans. Short term financing is associated with this class of loans and may or may not be converted to permanent financing. Construction loans are secured by dwellings or commercial buildings while land serves as collateral for land development and other land loans. The primary risks are associated with non-completion of a project within the term of the construction period and inadequate funds to complete the improvement.

Significant changes in the cost to build (such as change orders and cost-overruns) can have a material effect on the borrower's ability to repay.

- Real estate - commercial – Owner occupied nonresidential properties include office buildings, other commercial facilities, and farmland. Commercial mortgages secured by owner occupied properties are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination. While these loans and leases are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation. Non-owner occupied commercial mortgages consist of loans to purchase or refinance investment nonresidential properties. This includes office, retail, and industrial buildings along with hotels and other facilities rented or leased to unrelated parties, as well as farmland and multifamily properties. The primary risk associated with income-producing commercial mortgage loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. While these loans are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.
- Real estate - residential – Residential mortgages consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.
- Commercial and industrial – Commercial and industrial business loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, business credit cards, and lease financing agreements for equipment, vehicles, or other assets. The primary risk associated with commercial and industrial and lease financing loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Allowance for credit losses – loans, continued:

- Consumer and other – Consumer loans consist of loans to finance unsecured home improvements, student loans, automobiles and revolving lines of credit that can be secured or unsecured. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for management lending experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and local economic conditions not already captured. Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

#### Allowance for credit losses – unfunded commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a provision for (reversal of) unfunded commitments in the Company's consolidated statements of income. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees.

#### Premises, furniture and equipment:

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

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Leases:

The Company determines if an arrangement is a lease at inception. Operating leases are included in right of use (ROU) assets on operating leases and operating lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments is used. The implicit rate is used when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

##### Other real estate owned:

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

##### Goodwill and other intangible assets:

Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Fair values are subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. Other intangible assets represent premiums paid for acquisitions of core deposits (core deposit intangibles). Core deposit intangibles are being amortized over a 10-year period based on amortization schedules prepared by an outside consultant. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of identifiable intangible assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. No impairment losses have been recorded as a result of the Company's analysis during the years ended December 31, 2025 and 2024.

##### Retirement and deferred compensation plans:

The Bank has a profit sharing plan covering all full-time employees with at least twelve months of service and who have obtained the age of eighteen. Normal retirement age is the first of the month following attainment of age sixty-five or ten years of participation if later. Early retirement can be obtained at age fifty-five upon ten years of participation. Expenses charged to earnings for each of the years ended December 31, 2025 and 2024 totaled \$550 thousand and \$550 thousand, respectively, and are included within salaries and employee benefits on the consolidated statements of income.

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Securities sold under agreements to repurchase

The Company enters into sales of securities under agreements to repurchase. Fixed coupon repurchase agreements are treated as financing, with the obligation to repurchase securities sold being reflected as a liability and the securities underlying the agreements remaining as assets.

##### Income and expense recognition and revenue from contracts with customers:

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

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

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

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

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

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# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Income taxes:

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

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

#### Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of \$859 thousand and \$919 thousand were included in other operating expense on the consolidated statements of income for the years ended December 31, 2025, and 2024, respectively.

#### Comprehensive income:

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

#### Per-share amounts:

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

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

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Statement of cash flows:

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

#### Off-balance-sheet financial instruments:

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

#### Segment information:

The Company adopted Accounting Standards Update 2023-07 "Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures" on January 1, 2024. The Company has determined that all of its banking divisions and subsidiaries meet the aggregation criteria of ASC 280, Segment Reporting, as its current operating model is structured whereby banking divisions and subsidiaries serve a similar base of primarily commercial clients utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by the Company's President and Chief Operating Officer, who have been identified as the chief operating decision maker ("CODM").

The CODM regularly assesses performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as net income reported in the Company's consolidated statements of income and other comprehensive income. The CODM is also regularly provided with expense information at a level consistent with that disclosed in the Company's consolidated statements of income and other comprehensive income.

#### Application of new accounting guidance adopted in 2025:

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This amendment is intended to enhance the transparency and decision usefulness of income tax disclosures by requiring public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. For public business entities, the amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted. See footnote 17 for further discussion.

In November 2025, the FASB issued ASU 2025-08, Financial Instruments – Credit Losses, which amended the topic in the Accounting Standards Codification to expand the population of acquired financial assets subject to the gross-up approach. The amendments are effective for annual reporting periods beginning after December 15, 2026, with the Company electing early adoption effective for December 31, 2025. See footnote 2 for further discussion.

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Recently issued accounting pronouncements:

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

ASU 2025-01, *Income Statement Reporting Comprehensive Income – Expense Disaggregation Disclosures*: In January 2025, the FASB amended the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. The update focuses on improving transparency by requiring entities to disclose significant natural expense categories within functional expense line items, such as employee compensation, depreciation, amortization, and inventory costs. These amendments are intended to provide more consistent and decision-useful information to financial statement users. The Company does not expect these amendments to have a material effect on its financial statements.

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

##### Risks and uncertainties:

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

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

##### Reclassifications:

Certain captions and amounts in the 2024 consolidated financial statements were reclassified to conform with the 2025 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 2. Branch Acquisition

On October 17, 2025, the Company acquired the Laurinburg, North Carolina branch of First Capital Bank ("First Capital"), a South Carolina state-chartered institution headquartered in Charleston, South Carolina. In connection with the branch acquisition, the Company acquired \$15.5 million in assets and assumed \$41.4 million in liabilities, each at fair value, as of the date of closing.

The total purchase price was \$25.9 million. Acquisition-related costs of \$433 thousand were recorded for the year ended December 31, 2025, and are presented in branch acquisition related expenses in the consolidated statements of income.

The branch acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. Under this method of accounting, the respective assets acquired and liabilities assumed were recorded at their estimated fair values. The excess of consideration paid over the estimated fair value of the net assets acquired totaled \$715 thousand and was recorded as goodwill. The results of the Laurinburg branch operations were included in the Company's consolidated financial statements beginning on October 20, 2025.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of branch acquisition from First Capital:

(In Thousands)	<u>Net Assets Acquired at Fair Value</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 229
Loans receivable	13,220
Premises, furniture and equipment, net	76
Accrued interest receivable	158
Goodwill	715
Core deposit intangible	1,087
Total assets acquired	<u>\$ 15,485</u>
<b>Liabilities</b>	
Deposits	41,293
Accrued interest payable	101
Total liabilities assumed	<u>\$ 41,394</u>
Purchase Price	<u>\$ 25,909</u>

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 2. Branch Acquisition, Continued

The methods used to determine the fair value of assets acquired and liabilities assumed in the First Capital branch acquisition were as follows:

##### Loans:

Loans acquired in the branch acquisition were recorded at fair value, and with the Company's adoption of ASU 2025-08, there was no Day 1 provision for credit losses – loans. The fair value of loans acquired was determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. Management retained a third-party valuation specialist to assist with the determination of the fair value of loans acquired, the results of which were reviewed by management.

A fair value adjustment of \$115.7 thousand was recorded on the loans acquired in the branch acquisition. There were no loans acquired that were considered to be purchased credit-deteriorated ("PCD").

##### Goodwill:

The calculation of goodwill is subject to change for up to one year after the date of acquisition as additional information relative to the closing date estimates and uncertainties become available. As the Company finalizes its review of the acquired assets and liabilities, certain adjustments to the recorded carrying values may be required. Goodwill will be evaluated annually for impairment.

##### Core Deposit Intangible ("CDI"):

The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through wholesale borrowing rates and national brokered certificate of deposit offering rates. The projected cash flows were developed using projected deposit attrition rates. Management retained a third-party valuation specialist to assist with the determination of projected cash flows, the results of which were reviewed by management. The core deposit intangible totaled \$1.1 million and is being amortized on the sum-of-the-years digits basis over its estimated useful life of approximately 10 years.

##### Time deposits:

Time deposits acquired were recorded at fair value, which was determined based on discounting their contractual cash flows using current market interest rates for comparable wholesale funding and brokered CD alternatives. Key assumptions included prevailing market funding rates, deposit maturity characteristics, and a market-participant discount rate that reflects the Bank's marginal cost of funds and liquidity profile. The resulting adjustment represents the difference between the deposits' contractual rates and the rates a market participant would require at the acquisition date. A fair value adjustment of \$19.8 thousand was recorded on time deposits acquired in the branch acquisition.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 2. Branch Acquisition, Continued

#### Pro forma financial estimates:

The below unaudited estimated pro forma financial information was calculated as if the acquisition had occurred as of January 1, 2025. This unaudited pro forma information combines the historical results of First Capital's Laurinburg branch with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year of the acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value, cost savings, or business synergies. As a result, actual amounts would have differed from the unaudited pro forma information presented. Net interest income recorded under this approach would have been \$41.1 million for the year ended December 31, 2025. Net income recorded under this approach would have been \$11.2 million for the year ended December 31, 2025.

### Note 3. Investment Securities

The amortized cost and estimated fair value of securities available-for-sale along with gross unrealized gains and losses, for which an allowance for credit loss has not been recorded, are summarized as follows:

	<u>December 31, 2025</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<i>(Dollars in thousands)</i>				
Corporate securities	\$ 500	\$ -	\$ -	\$ 500
Government-sponsored enterprises	67,570	98	(2,472)	65,196
Mortgage backed securities	151,483	706	(4,282)	147,907
Obligations of state and local governments	42,214	205	(2,041)	40,378
U.S. Treasuries	14,848	137	(220)	14,765
	<u>\$ 276,615</u>	<u>\$ 1,146</u>	<u>\$ (9,015)</u>	<u>\$ 268,746</u>

	<u>December 31, 2024</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<i>(Dollars in thousands)</i>				
Government-sponsored enterprises	\$ 74,671	\$ 8	\$ (4,372)	\$ 70,307
Mortgage backed securities	96,463	44	(7,265)	89,242
Obligations of state and local governments	42,007	49	(3,500)	38,556
U.S. Treasuries	30,463	48	(530)	29,981
	<u>\$ 243,604</u>	<u>\$ 149</u>	<u>\$ (15,667)</u>	<u>\$ 228,086</u>

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 3. Investment Securities, Continued

The following is a summary of maturities of securities available-for-sale as of December 31, 2025. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

<i>(Dollars in thousands)</i>	<b>Securities Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 6,226	\$ 6,230
Due after one year but within five years	43,018	41,483
Due after five years but within ten years	53,888	51,199
Due after ten years	22,000	21,927
Mortgage backed securities	<u>151,483</u>	<u>147,907</u>
Total	<u>\$ 276,615</u>	<u>\$ 268,746</u>

At December 31, 2025, and 2024, investment securities with a book value of \$88.1 million and \$74.7 million and a market value of \$85.3 million and \$69.5 million, respectively, were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

During 2025, investment securities classified as available-for-sale, with a book value of \$4.1 million, were sold for a loss of approximately \$92 thousand. During 2024, no investment securities were sold.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 3. Investment Securities, Continued

The following table shows the gross unrealized losses and estimated fair value of available sale securities for which an allowance for credit losses have not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position, at December 31, 2025, and 2024.

	<b>December 31, 2025</b>					
	<b>Less Than Twelve Months</b>		<b>Twelve Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<i>(Dollars in thousands)</i>						
Government-sponsored enterprises	\$ 13,868	\$ (28)	\$ 37,055	\$ (2,444)	\$ 50,923	\$ (2,472)
Mortgage backed securities	38,529	(213)	49,472	(4,069)	88,001	(4,282)
Obligations of state and local governments	1,551	(30)	22,539	(2,011)	24,090	(2,041)
U.S. Treasuries	-	-	6,730	(220)	6,730	(220)
	<u>\$ 53,948</u>	<u>\$ (271)</u>	<u>\$ 115,796</u>	<u>\$ (8,744)</u>	<u>\$ 169,744</u>	<u>\$ (9,015)</u>

	<b>December 31, 2024</b>					
	<b>Less Than Twelve Months</b>		<b>Twelve Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<i>(Dollars in thousands)</i>						
Government-sponsored enterprises	\$ 30,947	\$ (225)	\$ 35,351	\$ (4,147)	\$ 66,298	\$ (4,372)
Mortgage backed securities	30,737	(717)	52,857	(6,548)	83,594	(7,265)
Obligations of state and local governments	8,265	(196)	26,199	(3,304)	34,464	(3,500)
U.S. Treasuries	2,899	(5)	22,126	(525)	25,025	(530)
	<u>\$ 72,848</u>	<u>\$ (1,143)</u>	<u>\$ 136,533</u>	<u>\$ (14,524)</u>	<u>\$ 209,381</u>	<u>\$ (15,667)</u>

At December 31, 2025, and 2024, the Company had 203 and 255 individual investments that were in an unrealized loss position, respectively. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. It is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. Accordingly, the Company has not recognized an allowance for credit losses on available-for-sale securities.

**Citizens Bancshares Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2025 and 2024**

**Note 4. Loans Receivable**

The following is a summary of the major categories of loans receivable at December 31, 2025 and 2024:

(Dollars in thousands)

	<u>2025</u>	<u>2024</u>
Real estate - construction	\$ 53,241	\$ 53,429
Real estate - commercial	176,780	162,772
Real estate - residential	307,549	272,198
Commercial and industrial	51,591	46,148
Consumer and other	<u>38,737</u>	<u>41,305</u>
Total loans, net of deferred fees and costs	627,898	575,852
Less allowance for credit losses	<u>(7,514)</u>	<u>(6,310)</u>
Loans, net	<u>\$ 620,384</u>	<u>\$ 569,542</u>

The above balances are inclusive of net deferred fees and costs of \$8 thousand and \$121 thousand as of December 31, 2025, and 2024, respectively.

Delinquency disclosures:

The following table presents an analysis of past-due loans as of December 31, 2025:

(Dollars in thousands)

	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Loans 90 Days or More Past Due and Still Accruing</u>	<u>Nonaccrual Loans</u>	<u>Current Loans</u>	<u>Total Loans</u>
Real estate - construction	\$ 31	\$ 45	\$ -	\$ -	\$ 53,165	\$ 53,241
Real estate - commercial	180	-	-	133	176,467	176,780
Real estate - residential	1,775	412	-	174	305,188	307,549
Commercial and industrial	113	10	-	-	51,468	51,591
Consumer and other	<u>204</u>	<u>56</u>	<u>-</u>	<u>66</u>	<u>38,411</u>	<u>38,737</u>
	<u>\$ 2,303</u>	<u>\$ 523</u>	<u>\$ -</u>	<u>\$ 373</u>	<u>\$ 624,699</u>	<u>\$ 627,898</u>

The following table presents an analysis of past-due loans as of December 31, 2024:

(Dollars in thousands)

	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Loans 90 Days or More Past Due and Still Accruing</u>	<u>Nonaccrual Loans</u>	<u>Current Loans</u>	<u>Total Loans</u>
Real estate - construction	\$ 26	\$ -	\$ -	\$ -	\$ 53,403	\$ 53,429
Real estate - commercial	230	45	-	-	162,497	162,772
Real estate - residential	765	84	-	666	270,683	272,198
Commercial and industrial	318	34	-	-	45,796	46,148
Consumer and other	<u>462</u>	<u>180</u>	<u>28</u>	<u>51</u>	<u>40,584</u>	<u>41,305</u>
	<u>\$ 1,801</u>	<u>\$ 343</u>	<u>\$ 28</u>	<u>\$ 717</u>	<u>\$ 572,963</u>	<u>\$ 575,852</u>

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## Citizens Bancshares Corporation

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 4. Loans Receivable, Continued

Credit quality indicators:

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

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

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

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

**Citizens Bancshares Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2025 and 2024**

**Note 4. Loans Receivable, Continued**

Vintage disclosures:

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2025. The Company included deposit overdraft charge offs, totaling \$335 thousand at December 31, 2025, within the Consumer and other segment below:

(Dollars in thousands)

	Term Loans by Year of Origination							Total
	2025	2024	2023	2022	2021	Prior	Revolving	
<b>Real estate - construction</b>								
Acceptable/Pass	\$ 28,105	\$ 10,039	\$ 3,326	\$ 3,028	\$ 2,783	\$ 4,205	\$ 1,653	\$ 53,139
Watch - Special Mention	-	-	-	-	-	51	-	51
Substandard	51	-	-	-	-	-	-	51
Total real estate - construction loans	<u>\$ 28,156</u>	<u>\$ 10,039</u>	<u>\$ 3,326</u>	<u>\$ 3,028</u>	<u>\$ 2,783</u>	<u>\$ 4,256</u>	<u>\$ 1,653</u>	<u>\$ 53,241</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
<b>Real estate - commercial</b>								
Acceptable/Pass	\$ 32,304	\$ 15,831	\$ 17,945	\$ 22,503	\$ 24,166	\$ 46,523	\$ 13,243	\$ 172,515
Watch - Special Mention	-	-	98	1,393	-	945	1,696	4,132
Substandard	-	35	-	-	-	98	-	133
Total real estate - commercial loans	<u>\$ 32,304</u>	<u>\$ 15,866</u>	<u>\$ 18,043</u>	<u>\$ 23,896</u>	<u>\$ 24,166</u>	<u>\$ 47,566</u>	<u>\$ 14,939</u>	<u>\$ 176,780</u>
Current period gross write-offs	-	-	-	-	-	(19)	-	(19)
<b>Real estate - residential</b>								
Acceptable/Pass	\$ 38,794	\$ 44,828	\$ 50,550	\$ 36,838	\$ 28,794	\$ 62,966	\$ 43,109	\$ 305,879
Watch - Special Mention	-	-	204	218	-	371	61	854
Substandard	105	38	-	-	-	392	281	816
Total real estate - residential loans	<u>\$ 38,899</u>	<u>\$ 44,866</u>	<u>\$ 50,754</u>	<u>\$ 37,056</u>	<u>\$ 28,794</u>	<u>\$ 63,729</u>	<u>\$ 43,451</u>	<u>\$ 307,549</u>
Current period gross write-offs	-	-	-	(16)	-	(19)	-	(35)
<b>Commercial and industrial</b>								
Acceptable/Pass	\$ 20,659	\$ 10,709	\$ 5,649	\$ 3,163	\$ 912	\$ 1,984	\$ 8,418	\$ 51,494
Watch - Special Mention	-	9	-	-	7	27	-	43
Substandard	-	12	-	-	-	42	-	54
Total commercial and industrial loans	<u>\$ 20,659</u>	<u>\$ 10,730</u>	<u>\$ 5,649</u>	<u>\$ 3,163</u>	<u>\$ 919</u>	<u>\$ 2,053</u>	<u>\$ 8,418</u>	<u>\$ 51,591</u>
Current period gross write-offs	-	(1)	-	-	(1)	(35)	-	(37)
<b>Consumer and other</b>								
Acceptable/Pass	\$ 17,378	\$ 10,348	\$ 6,301	\$ 2,500	\$ 1,177	\$ 426	\$ 399	\$ 38,529
Watch - Special Mention	25	-	22	-	5	7	-	59
Substandard	32	33	49	25	6	4	-	149
Total consumer and other loans	<u>\$ 17,435</u>	<u>\$ 10,381</u>	<u>\$ 6,372</u>	<u>\$ 2,525</u>	<u>\$ 1,188</u>	<u>\$ 437</u>	<u>\$ 399</u>	<u>\$ 38,737</u>
Current period gross write-offs	(381)	(64)	(77)	(14)	(5)	-	-	(541)

**Citizens Bancshares Corporation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2025 and 2024**

**Note 4. Loans Receivable, Continued**

*Vintage disclosures, continued:*

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024. The Company included deposit overdraft charge offs, totaling \$348 thousand at December 31, 2024, within the Consumer and other segment below:

(Dollars in thousands)

	Term Loans by Year of Origination							Revolving	Total
	2024	2023	2022	2021	2020	Prior			
<b>Real estate - construction</b>									
Acceptable/Pass	\$ 25,729	\$ 8,339	\$ 8,548	\$ 3,675	\$ 1,978	\$ 3,020	\$ 2,054	\$ 53,343	
Watch - Special Mention	-	-	-	-	-	86	-	86	
Substandard	-	-	-	-	-	-	-	-	
Total real estate - construction loans	<u>\$ 25,729</u>	<u>\$ 8,339</u>	<u>\$ 8,548</u>	<u>\$ 3,675</u>	<u>\$ 1,978</u>	<u>\$ 3,106</u>	<u>\$ 2,054</u>	<u>\$ 53,429</u>	
Current period gross write-offs	-	-	-	-	-	-	-	-	
<b>Real estate - commercial</b>									
Acceptable/Pass	\$ 16,178	\$ 24,227	\$ 19,061	\$ 27,454	\$ 14,121	\$ 41,613	\$ 11,945	\$ 154,599	
Watch - Special Mention	-	109	1,217	3,776	-	1,132	1,765	7,999	
Substandard	39	-	-	-	108	27	-	174	
Total real estate - commercial loans	<u>\$ 16,217</u>	<u>\$ 24,336</u>	<u>\$ 20,278</u>	<u>\$ 31,230</u>	<u>\$ 14,229</u>	<u>\$ 42,772</u>	<u>\$ 13,710</u>	<u>\$ 162,772</u>	
Current period gross write-offs	-	-	(50)	-	-	-	-	(50)	
<b>Real estate - residential</b>									
Acceptable/Pass	\$ 35,658	\$ 50,787	\$ 40,087	\$ 32,410	\$ 25,951	\$ 46,970	\$ 37,020	\$ 268,883	
Watch - Special Mention	-	567	-	80	125	594	109	1,475	
Substandard	-	206	-	52	-	1,016	566	1,840	
Total real estate - residential loans	<u>\$ 35,658</u>	<u>\$ 51,560</u>	<u>\$ 40,087</u>	<u>\$ 32,542</u>	<u>\$ 26,076</u>	<u>\$ 48,580</u>	<u>\$ 37,695</u>	<u>\$ 272,198</u>	
Current period gross write-offs	-	-	-	-	-	-	-	-	
<b>Commercial and industrial</b>									
Acceptable/Pass	\$ 18,775	\$ 11,523	\$ 5,616	\$ 2,365	\$ 757	\$ 1,917	\$ 4,910	\$ 45,863	
Watch - Special Mention	12	77	-	16	-	28	1	134	
Substandard	103	6	-	-	-	42	-	151	
Total commercial and industrial loans	<u>\$ 18,890</u>	<u>\$ 11,606</u>	<u>\$ 5,616</u>	<u>\$ 2,381</u>	<u>\$ 757</u>	<u>\$ 1,987</u>	<u>\$ 4,911</u>	<u>\$ 46,148</u>	
Current period gross write-offs	-	(45)	(11)	(4)	-	-	-	(60)	
<b>Consumer and other</b>									
Acceptable/Pass	\$ 19,334	\$ 12,262	\$ 5,628	\$ 2,753	\$ 876	\$ 262	\$ -	\$ 41,115	
Watch - Special Mention	2	43	10	17	-	12	-	84	
Substandard	30	6	59	11	-	-	-	106	
Total consumer and other loans	<u>\$ 19,366</u>	<u>\$ 12,311</u>	<u>\$ 5,697</u>	<u>\$ 2,781</u>	<u>\$ 876</u>	<u>\$ 274</u>	<u>\$ -</u>	<u>\$ 41,305</u>	
Current period gross write-offs	(361)	(120)	(94)	(1)	(1)	-	(7)	(584)	

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements December 31, 2025 and 2024

### Note 4. Loans Receivable, Continued

#### Nonaccrual disclosures:

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2025:

	<u>December 31, 2025</u>		
	<u>Nonaccrual Loans with No Allowance</u>	<u>Nonaccrual Loans with an Allowance</u>	<u>Total Nonaccrual Loans</u>
(Dollars in thousands)			
Real estate - commercial	\$ 133	\$ -	\$ 133
Real estate - residential	135	39	174
Consumer and other	<u>66</u>	<u>-</u>	<u>66</u>
Total loans	<u>\$ 334</u>	<u>\$ 39</u>	<u>\$ 373</u>

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2024:

	<u>December 31, 2024</u>		
	<u>Nonaccrual Loans with No Allowance</u>	<u>Nonaccrual Loans with An allowance</u>	<u>Total Nonaccrual Loans</u>
(Dollars in thousands)			
Real estate - residential	\$ 613	\$ 53	\$ 666
Consumer and other	<u>5</u>	<u>46</u>	<u>51</u>
Total loans	<u>\$ 618</u>	<u>\$ 99</u>	<u>\$ 717</u>

The Company recognized \$25 thousand and \$27 thousand of interest income on nonaccrual loans during the year ended December 31, 2025, and 2024, respectively.

When a loan is moved to nonaccrual, the corresponding accrued interest receivable is written off against interest income during the current period. For the year ended December 31, 2025, the Company had no accrued interest receivables written off by reversing interest income. For the year ended December 31, 2024, the Company had \$1 thousand of accrued interest receivables written off by reversing interest income.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 4. Loans Receivable, Continued

#### Collateral dependent disclosures:

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans:

	For the Period Ended	
	December 31,	
	2025	2024
(Dollars in thousands)		
Real estate - commercial	\$ 133	\$ -
Real estate - residential	225	509
Consumer and other	56	52
Total loans	<u>\$ 414</u>	<u>\$ 561</u>

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 4. Loans Receivable, Continued

#### Allowance for credit losses disclosures:

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2025.

(Dollars in thousands)

	<u>Real Estate Construction</u>	<u>Real Estate Commercial</u>	<u>Real Estate Residential</u>	<u>Commercial and Industrial</u>	<u>Consumer and Other</u>	<u>Total</u>
<b>Allowance for credit losses:</b>						
Balance, December 31, 2024	\$ 622	\$ 1,735	\$ 2,987	\$ 904	\$ 62	\$ 6,310
Charge-offs	-	(19)	(35)	(37)	(541)	(632)
Recoveries	-	2	1	40	310	353
Provision for credit losses	15	379	746	(290)	633	1,483
Balance, December 31, 2025	<u>\$ 637</u>	<u>\$ 2,097</u>	<u>\$ 3,699</u>	<u>\$ 617</u>	<u>\$ 464</u>	<u>\$ 7,514</u>

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2024.

(Dollars in thousands)

	<u>Real Estate Construction</u>	<u>Real Estate Commercial</u>	<u>Real Estate Residential</u>	<u>Commercial and Industrial</u>	<u>Consumer and Other</u>	<u>Total</u>
<b>Allowance for credit losses:</b>						
Balance, December 31, 2023	\$ 562	\$ 1,598	\$ 2,669	\$ 873	\$ 197	\$ 5,899
Charge-offs	-	(50)	-	(60)	(584)	(694)
Recoveries	-	3	11	38	218	270
Provision for credit losses	60	184	307	52	232	835
Balance, December 31, 2024	<u>\$ 622</u>	<u>\$ 1,735</u>	<u>\$ 2,987</u>	<u>\$ 904</u>	<u>\$ 62</u>	<u>\$ 6,310</u>

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 4. Loans Receivable, Continued

##### Modifications made to borrowers experiencing financial difficulty:

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a weighted average remaining maturity model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. The Company may modify with a combination of at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 4. Loans Receivable, Continued

*Modifications made to borrowers experiencing financial difficulty, continued:*

The following table shows the amortized cost basis as of December 31, 2025 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	<b>Term Extension</b>		
	<b>Amortized Cost Basis</b>	<b>% of Total Loan Type</b>	<b>Financial Effect</b>
	<i>(\$ in thousands)</i>		
Real estate - construction	\$ 51	0.10%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Real estate - residential	\$ 45	0.01%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Commercial and industrial	\$ 12	0.02%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Consumer and other	\$ 48	0.09%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Total loans	<u>\$ 156</u>		

<b>Combination – Term Extension and Interest Rate Reduction</b>			
	<b>Amortized Cost Basis</b>	<b>% of Total Loan Type</b>	<b>Financial Effect</b>
	<i>(\$ in thousands)</i>		
Real estate - residential	\$ 275	0.09%	Provided payment deferrals to borrowers and reduced contractual interest rates for borrowers, which reduced payment amounts for the borrowers.
Consumer and other	\$ 8	0.02%	Provided payment deferrals to borrowers and reduced contractual interest rates for borrowers, which reduced payment amounts for the borrowers.
Total loans	<u>\$ 283</u>		

The Company did not commit to lend additional amounts to the borrowers included in the previous tables.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 4. Loans Receivable, Continued

*Modifications made to borrowers experiencing financial difficulty, continued:*

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

There were no loans that had a payment default during the period and were modified during the year ended December 31, 2025. Payment is considered to have defaulted if not made within ninety days.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified during the year ended December 31, 2025:

**Payment Status (Amortized Cost Basis)**

	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90+ Days Past Due</u>
Real estate - construction	\$ 51	\$ -	\$ -
Real estate - residential	320	-	-
Commercial and industrial	-	12	-
Consumer and other	<u>56</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 427</u>	<u>\$ 12</u>	<u>\$ -</u>

# Citizens Bancshares Corporation

Notes to Consolidated Financial Statements  
December 31, 2025 and 2024

## Note 4. Loans Receivable, Continued

*Modifications made to borrowers experiencing financial difficulty, continued:*

The following table shows the amortized cost basis as of December 31, 2024, of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	<b>Term Extension</b>		
	<b>Amortized Cost Basis</b>	<b>% of Total Loan Type</b>	<b>Financial Effect</b>
	<i>(\$ in thousands)</i>		
Commercial and industrial	\$ 31	0.07%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Consumer and other	29	0.06%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Total loans	<u>\$ 60</u>		
	<b>Combination – Term Extension and Interest Rate Reduction</b>		
	<b>Amortized Cost Basis</b>	<b>% of Total Loan Type</b>	<b>Financial Effect</b>
	<i>(\$ in thousands)</i>		
Real estate - residential	\$ 28	0.01%	Provided payment deferrals to borrowers and reduced contractual interest rates for borrowers, which reduced payment amounts for the borrowers.
Total loans	<u>\$ 28</u>		

The Company did not commit to lend additional amounts to the borrowers included in the previous table.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 4. Loans Receivable, Continued

#### Modifications made to borrowers experiencing financial difficulty, continued:

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

There were no loans that had a payment default during the period and were modified during the year ended December 31, 2024. Payment is considered to have defaulted if not made within ninety days.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified during the year ended December 31, 2024 (in thousands):

	<b><u>Payment Status (Amortized Cost Basis)</u></b>		
	<b><u>Current</u></b>	<b><u>30-89 Days Past Due</u></b>	<b><u>90+ Days Past Due</u></b>
Real estate - residential	\$ 28	\$ -	\$ -
Commercial and industrial	31	-	-
Consumer and other	29	-	-
Total	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ -</u>

#### Unfunded commitments:

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for (reversal of) credit losses – unfunded commitments in the consolidated statements of income. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the years ended December 31:

(Dollars in thousands)

	<b><u>2025</u></b>	<b><u>2024</u></b>
Balance, beginning of year	\$ 550	\$ 1,199
Provision for (reversal of) credit losses – unfunded commitments	25	(649)
Balance, end of year	<u>\$ 575</u>	<u>\$ 550</u>

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements December 31, 2025 and 2024

### Note 5. Other Real Estate Owned

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

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 970	\$ 1,090
Additions	130	170
Sales	(170)	(290)
Balance, end of year	<u>\$ 930</u>	<u>\$ 970</u>

### Note 6. Premises and Equipment

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

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Land	\$ 12,133	\$ 12,133
Building and improvements	23,765	23,654
Furniture and equipment	6,190	5,950
Construction in progress	480	-
Total	42,568	41,737
Less accumulated depreciation	(14,252)	(13,096)
Premises and equipment, net	<u>\$ 28,316</u>	<u>\$ 28,641</u>

Depreciation expense for the years ended December 31, 2025, and 2024 was \$1.3 million and \$1.2 million, respectively.

### Note 7. Goodwill and Core Deposit Intangible

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

<i>(Dollars in thousands)</i>	<u>2025</u>		<u>2024</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Finite lived intangible asset:				
Core deposit intangible	<u>\$ 8,166</u>	<u>\$ 3,269</u>	<u>\$ 7,079</u>	<u>\$ 2,487</u>

## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

#### Note 7. Goodwill and Core Deposit Intangible, Continued

Based on the core deposit intangibles as of December 31, 2025, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

<i>(Dollars in thousands)</i>	<u>Amount</u>
2026	\$ 1,099
2027	1,004
2028	909
2029	609
2030 and thereafter	<u>1,276</u>
Total	<u>\$ 4,897</u>

Amortization expense of \$782 thousand and \$708 thousand related to the core deposit intangibles was recognized in 2025 and 2024, respectively, and is included in other operating expense on the consolidated statements of income.

Goodwill is summarized as follows as of December 31:

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Balance, beginning of the year	\$ 18,483	\$ 18,483
Goodwill recorded during the year	715	-
Goodwill written off during the year	-	-
Balance, end of the year	<u>\$ 19,198</u>	<u>\$ 18,483</u>

Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. The Company evaluates the CDI for impairment at least annually, or more frequently based on specific events or changes in circumstances. As of December 31, 2025, and 2024, management determined that no goodwill or CDI impairment existed.

#### Note 8. Deposits

At December 31, 2025, the scheduled maturities of certificates of deposit are as follows:

<i>(Dollars in thousands)</i>	<u>Amount</u>
2026	\$ 92,189
2027	3,678
2028	287
2029	696
2030 and thereafter	<u>674</u>
Total	<u>\$ 97,524</u>

Time deposits that meet or exceed the FDIC Insurance limit of \$250 thousand at December 31, 2025, and 2024 were \$19.8 million and \$17.4 million, respectively. The Company did not carry brokered deposits as of December 31, 2025, and 2024.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements December 31, 2025 and 2024

### Note 8. Deposits, Continued

The Company did not carry any deposit relationships with a combined balance in excess of 5% of total deposits as of December 31, 2025, and 2024.

Overdrawn transaction accounts in the amount of \$479 thousand and \$345 thousand were reclassified as consumer and other loans as of December 31, 2025, and 2024, respectively.

### Note 9. Advances from Federal Home Loan Bank

As of December 31, 2025, and 2024, the Company did not have any outstanding advances from the Federal Home Loan Bank (FHLB). As collateral, the Bank has pledged first mortgage loans on one to four family residential loans aggregating \$208.6 million and \$186.7 million at December 31, 2025, and 2024, respectively. In addition, the Company's Federal Home Loan Bank stock is pledged to secure borrowings.

### Note 10. Subordinated Debt

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

### Note 11. Lease Commitments

Rental expense recorded under leases for the years ended December 31, 2025, and 2024 was \$148 thousand and \$149 thousand, respectively, and is recorded in net occupancy within the consolidated statements of income.

The weighted average remaining lease term for the years ending December 31, 2025, and 2024 was 6.13 years and 6.65 years, respectively, and the weighted average discount rate used for the years ended December 31, 2025, and 2024 was 5.01%. The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2025, are as follows:

<i>(Dollars in thousands)</i>	<u>Amount</u>
2026	\$ 120
2027	120
2028	38
2029	30
2030 and thereafter	<u>160</u>
Total undiscounted lease payments	468
Less effect of discounting	<u>(76)</u>
Present value of estimated lease payments (lease liability)	<u>\$ 392</u>

## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

#### Note 12. Stock Options

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

As of December 31, 2025, and 2024, there were 75,402 options outstanding. As of December 31, 2025, all of the outstanding options were exercisable. None of the options outstanding at December 31, 2025, have an expiration date. The aggregate intrinsic value of these options was \$3.2 million and \$2.9 million at December 31, 2025, and 2024, respectively. There were no options exercised during the year ended December 31, 2025, or December 31, 2024, under the company's stock option agreement.

A summary of the status of the Stock Option Plan as of December 31, 2025 and changes during the period is presented below:

	<u>2025</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	75,402	\$ 2.64
Granted	-	\$ -
Exercised	-	\$ -
Forfeited	-	\$ -
Outstanding at end of year	<u>75,402</u>	\$ 2.64
Options exercisable at year-end	<u>75,402</u>	\$ 2.64

As of December 31, 2025, there were no shares available to grant based on the original plan agreement.

A summary of the status of the Stock Option Plan as of December 31, 2024, and changes during the period is presented below:

	<u>2024</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	75,402	\$ 2.64
Granted	-	\$ -
Exercised	-	\$ -
Forfeited	-	\$ -
Outstanding at end of year	<u>75,402</u>	\$ 2.64
Options exercisable at year-end	<u>75,402</u>	\$ 2.64

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 13. Earnings Per Share

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

(Dollars in thousands, except share and per share amounts)

	<u>2025</u>	<u>2024</u>
<b>Basic earnings per common share:</b>		
Net income available to common shareholders	\$ 11,022	\$ 10,255
Basic average common shares outstanding	<u>1,951,320</u>	<u>1,966,990</u>
Basic earnings per common share	<u>\$ 5.65</u>	<u>\$ 5.21</u>
<b>Diluted earnings per common share:</b>		
Net income available to common shareholders	\$ 11,022	\$ 10,255
Basic average common shares outstanding	1,951,320	1,966,990
<b>Incremental shares from assumed conversions:</b>		
Stock options	<u>71,003</u>	<u>70,576</u>
Diluted average common shares outstanding	<u>\$ 2,022,323</u>	<u>\$ 2,037,566</u>
Diluted earnings per common share	<u>\$ 5.45</u>	<u>\$ 5.03</u>

### Note 14. Capital Requirements and Regulatory Matters

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

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

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

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 14. Capital Requirements and Regulatory Matters, Continued

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

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

As of December 31, 2025, the most recent notifications from the Bank’s primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank’s categories.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2025, and 2024:

<i>(Dollars in thousands)</i>	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well-Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>December 31, 2025</b>						
The Bank						
Total capital (to risk weighted assets)	\$ 102,657	15.81%	\$ 51,960	8.00%	\$ 64,949	10.00%
Tier 1 capital (to risk weighted assets)	105,184	16.19%	38,970	6.00%	51,960	8.00%
Tier 1 capital (to average assets)	105,184	9.72%	43,293	4.00%	54,116	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	105,184	16.19%	29,227	4.50%	42,217	6.50%

<i>(Dollars in thousands)</i>	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well-Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>December 31, 2024</b>						
The Bank						
Total capital (to risk weighted assets)	\$ 102,657	16.94%	\$ 48,493	8.00%	\$ 60,617	10.00%
Tier 1 capital (to risk weighted assets)	95,797	15.80%	36,370	6.00%	48,493	8.00%
Tier 1 capital (to average assets)	95,797	9.53%	40,193	4.00%	50,241	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	95,797	15.80%	27,278	4.50%	39,401	6.50%

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 15. Restrictions on Dividends, Loans, and Advances

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

### Note 16. Employee Retirement and Stock Ownership Plan

The Company sponsors an employee retirement and stock ownership plan. Employees eligible for the Company stock component of the KSOP plan include all employees who work at least 1,000 hours during the initial twelve consecutive months of employment, or any plan year beginning after the date of employment. The Company periodically makes discretionary contributions to the KSOP. For the years ended December 31, 2025, and 2024, the Company contributed \$106 thousand and \$116 thousand to the KSOP, respectively, and is record in salaries and employee benefits in the consolidated statements of income.

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

	<u>2025</u>	<u>2024</u>
Allocated shares	88,831	85,531
Shares released for allocation	-	3,300
Unreleased shares	-	-
	<u>88,831</u>	<u>88,831</u>

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 17. Income Taxes

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

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Current income tax expense:		
Federal	\$ 2,800	\$ 2,356
State	5	4
Total current	<u>2,805</u>	<u>2,360</u>
Deferred income tax (benefit) expense - Federal	<u>(257)</u>	<u>342</u>
Income tax expense	<u>\$ 2,548</u>	<u>\$ 2,702</u>

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

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Deferred tax assets:		
Other real estate owned	\$ 219	\$ 183
Allowance for credit losses	1,557	1,325
Allowance for unfunded commitments	121	116
Interest on nonaccrual loans	9	9
Reserve for contingencies	63	61
Unrealized loss on securities available-for-sale	1,652	3,258
Unearned income	10	10
Net operating losses	288	243
Other	95	-
Gross deferred tax assets	<u>4,014</u>	<u>5,205</u>
Valuation allowance	<u>284</u>	<u>243</u>
Net deferred tax assets	<u>3,730</u>	<u>4,962</u>
Deferred tax liabilities:		
Accumulated depreciation	562	556
Goodwill	860	629
Mark-to-market purchase accounting	107	46
Deferred loan costs	203	203
Deferred gain on like kind exchange	244	244
Other	-	181
Total deferred tax liabilities	<u>1,976</u>	<u>1,859</u>
Net deferred tax asset	<u>\$ 1,754</u>	<u>\$ 3,103</u>

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements December 31, 2025 and 2024

### Note 17. Income Taxes, Continued

Tax returns for 2022 and subsequent years are subject to examination by taxing authorities.

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

(Dollars in thousands)

	2025		2024	
	Amount	Percent	Amount	Percent
Tax expense at U.S. statutory rate	\$ 2,850	21.00%	\$ 2,721	21.00 %
State income tax, net of federal benefit*	(121)	(0.89)	(86)	(0.66)
Nontaxable or nondeductible items:				
Tax-exempt interest income	(191)	(1.40)	(180)	(1.39)
Nondeductible interest expense	18	0.13	20	0.15
Meals and entertainment	72	0.53	72	0.56
Change in valuation allowance	41	0.30	47	0.36
Other, net	(121)	(0.89)	108	0.83
Income tax expense	<u>\$ 2,548</u>	<u>18.78%</u>	<u>\$ 2,702</u>	<u>20.85%</u>

\*State taxes in South Carolina make up the majority (greater than 50 percent) of the tax effect in this category.

Activity in the Company's deferred tax asset valuation allowance is as follows for the years ended December 31:

(Dollars in thousands)

	2025	2024
Beginning Balance	\$ 243	\$ 196
Valuation allowance provided for taxes related to:		
Federal	-	-
State	41	47
Ending Balance	<u>\$ 284</u>	<u>\$ 243</u>

Income taxes paid (net of refunds received) were as follows:

	Years Ended December 31	
	2025	2024
Income taxes paid		
Federal taxes paid	\$ 2,590	\$ 2,550
State and city taxes paid:		
Other*	7	10
Total state and city taxes paid	7	10
Total tax expense	<u>\$ 2,597</u>	<u>\$ 2,560</u>

\*Jurisdictions below the 5 percent of total income taxes paid (net of refunds) threshold for the period presented.

The Company purchased \$575 thousand of South Carolina tax credits during the years ended December 31, 2025 and 2024. These credits offset income tax obligations paid to the state of South Carolina for each of the years then ended.

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

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## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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#### Note 18. Fair Value of Financial Instruments

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

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

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

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

Fair value hierarchy:

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

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

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

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## Citizens Bancshares Corporation

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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### Note 18. Fair Value of Financial Instruments, Continued

*Fair value hierarchy, continued:*

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

**Individually Evaluated Loans** - The fair value of individually evaluated loans is estimated using either the collateral value or discounted cash flows. The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Individually evaluated loans are classified within level 3 of the fair value hierarchy. The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral securing individually evaluated loans are obtained when the loan is determined to be collateral dependent and subsequently, as deemed necessary, according to Bank policy. Appraisers are selected from the list of approved appraisers maintained by Management. Appraisals are only obtained from independent licensed appraisers following Uniform Standards of Professional Appraisal Practice. When an appraised value is not available, or an appraisal is not considered sufficient, the Company estimates fair value using the discounted cash flows of expected future payments.

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

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 18. Fair Value of Financial Instruments, Continued

*Fair value hierarchy, continued:*

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

	December 31, 2025			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Corporate securities	\$ 500	\$ -	\$ 500	\$ -
Government-sponsored enterprises	65,196	-	65,196	-
Mortgage backed securities	147,907	-	147,907	-
Obligations of state and local governments	40,378	-	40,378	-
U.S. Treasuries	14,765	-	14,765	-
Total	<u>\$ 268,746</u>	<u>\$ -</u>	<u>\$ 268,746</u>	<u>\$ -</u>

  

	December 31, 2024			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Government-sponsored enterprises	\$ 70,307	\$ -	\$ 70,307	\$ -
Mortgage backed securities	89,242	-	89,242	-
Obligations of state and local governments	38,556	-	38,556	-
U.S. Treasuries	29,981	-	29,981	-
Total	<u>\$ 228,086</u>	<u>\$ -</u>	<u>\$ 228,086</u>	<u>\$ -</u>

The Company had no liabilities measured at fair value on a recurring basis as of December 31, 2025 and 2024.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 18. Fair Value of Financial Instruments, Continued

#### Fair value hierarchy, continued:

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy described above for which a nonrecurring change in fair value has been recorded as of December 31, 2025, and 2024.

	December 31, 2025			
	Total	Level 1	Level 2	Level 3
(Dollars in thousands)				
Other real estate owned	\$ 930	\$ -	\$ -	\$ 930
Individually evaluated loans, net specific reserve:				
Real estate - commercial	133	-	-	133
Real estate - residential	225	-	-	225
Consumer and other	56	-	-	56
Total individually evaluated loans, net of specific reserve	381	-	-	381
Total	<u>\$ 1,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,344</u>

	December 31, 2024			
	Total	Level 1	Level 2	Level 3
(Dollars in thousands)				
Other real estate owned	\$ 970	\$ -	\$ -	\$ 970
Individually evaluated loans, net specific reserve:				
Real estate - residential	509	-	-	509
Consumer and other	51	-	-	51
Total individually evaluated loans, net of specific reserve	503	-	-	503
Total	<u>\$ 1,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,531</u>

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 18. Fair Value of Financial Instruments, Continued

*Fair value hierarchy, continued:*

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2025, and 2024, the significant unobservable inputs used in the fair value measurements were as follows:

	<b>Fair Value as of December 31, 2025</b>	<b>Valuation Technique</b>	<b>Significant Observable Inputs</b>	<b>Significant Unobservable Inputs</b>
Individually evaluated loans, net of specific reserve	\$ 381	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	\$ 930	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
	<b>Fair Value as of December 31, 2024</b>	<b>Valuation Technique</b>	<b>Significant Observable Inputs</b>	<b>Significant Unobservable Inputs</b>
Individually evaluated loans, net of specific reserve	\$ 503	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	\$ 970	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

The Company had no liabilities measured at fair value on a non-recurring basis as of December 31, 2025 and 2024.

# Citizens Bancshares Corporation

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### Note 18. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and non-recurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2025, and 2024.

	December 31, 2025				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>Financial Assets:</i>					
Cash and cash equivalents	\$ 142,984	\$ 142,984	\$142,984	\$ -	\$ -
Nonmarketable equity securities	1,375	1,375	-	-	1,375
Loans held for investment, net	620,384	621,003	-	-	621,003
Loans held for sale	195	195	-	195	-
Accrued interest receivable	3,795	3,795	-	-	3,795
<i>Financial Liabilities:</i>					
Deposits	975,210	855,611	-	855,611	-
Securities sold under agreement to repurchase	3,325	3,325	-	3,325	-
Subordinated debentures	24,631	22,130	-	22,130	-
Accrued interest payable	880	880	-	-	880
	December 31, 2024				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>Financial Assets:</i>					
Cash and cash equivalents	\$ 153,064	\$ 153,064	\$153,064	\$ -	\$ -
Nonmarketable equity securities	1,326	1,326	-	-	1,326
Loans held for investment, net	569,542	565,322	-	-	565,322
Accrued interest receivable	3,703	3,703	-	3,703	-
<i>Financial Liabilities:</i>					
Deposits	916,665	801,529	-	801,529	-
Securities sold under agreement to repurchase	2,429	2,429	-	2,429	-
Subordinated debentures	24,572	22,077	-	22,077	-
Accrued interest payable	866	866	-	-	866

Cash and cash equivalents:

The carrying amount approximates fair value for these instruments.

## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

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#### Note 18. Fair Value of Financial Instruments, Continued

##### Loans held for investment:

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

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

##### Loans held for sale:

The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked in price with the investors on the same day that the loan was locked in with the Company's customers. Therefore, these loans present very little market risk for the Company and are classified as Level 2. The carrying amount of these loans approximates fair value.

##### Nonmarketable equity securities:

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

##### Accrued interest receivable:

Accrued interest receivables are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

##### Deposits:

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

##### Securities sold under agreement to repurchase:

The fair value of securities sold under agreements to repurchase generally mature within 31 days and the stated balance approximates their fair value.

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## Citizens Bancshares Corporation

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### Note 18. Fair Value of Financial Instruments, Continued

#### Subordinated debentures:

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

#### Accrued interest payable:

Accrued interest payables are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

### Note 19. Commitments and Contingencies

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

### Note 20. Unused Lines of Credit

The Company had unused lines of credit to purchase federal funds from other financial institutions totaling \$57.5 million and \$47.5 million as of December 31, 2025 and 2024, respectively. Under the terms of the agreements, the Company may borrow at mutually agreed-upon rates for one to fifteen day periods. The Company also has a line of credit to borrow funds from the Federal Home Loan Bank which totaled \$137.0 million and \$123.3 million as of December 31, 2025 and 2024, respectively. As of December 31, 2025, and 2024, the Bank had not borrowed on any of these funding sources.

### Note 21. Financial Instruments With Off-Balance Sheet Risk

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

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

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

## Citizens Bancshares Corporation

### Notes to Consolidated Financial Statements

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#### Note 21. Financial Instruments With Off-Balance Sheet Risk, Continued

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

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

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Commitments to extend credit	\$ 96,428	\$ 52,434
Standby letters of credit	1,174	1,780

#### Note 22. Related Party Transactions

Certain parties (principally certain directors and shareholders of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Bank. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability.

The following table summarizes related party loans:

<i>(Dollars in thousands)</i>	<u>2025</u>	<u>2024</u>
Balance at the beginning of the year	\$ 5,565	\$ 4,143
New loans or advances	1,009	2,787
Repayments	<u>(1,149)</u>	<u>(1,365)</u>
Balance at the end of the year	<u>\$ 5,425</u>	<u>\$ 5,565</u>

Deposits by directors including their affiliates and executive officers totaled approximately \$10.0 million and \$8.4 million at December 31, 2025, and 2024, respectively.

#### Note 23. Subsequent Events

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