
Annual Report to Shareholder's Letter from President Rick Robertson January 2013

Highlights for 2012 include:

- Net Income of \$4,843,000 which is also our third year in a row of increased profitability
- Loan growth of \$19.3 million or a 6.5% growth in the loan portfolio
- Cash dividends continued at \$0.32 per share on a quarterly basis with the 4th quarter dividend paid early for shareholder benefit. The normalized dividend of \$1.28 annually represents a 4.2% cash return on the year end closing price

Bank Profitability

Net Income for 2012 totaled \$4,843,000 which compares favorably to \$4,754,000 for 2011 and \$4,024,000 for 2010. In this lower interest rate environment both interest income and interest expense were lower in 2012 compared to 2011. Non- interest expenses increased in 2012 over 2011 due to a variety of factors; including larger size of the organization from the branch purchase, systems and technology costs to maintain and improve our ability to provide desired service levels, and some transaction costs from the branch purchase. Favorable changes were experienced with the increases in non-interest income, moving from \$3,468,000 in 2011 to \$4,553,000 in 2012, a 31% increase and a positive item of a reduced Provision for Loan Expense in 2012 compared to 2011.

Loan Growth

Growing the loan portfolio with quality assets is important for our continued success. Fortunately, we were able to have good loan growth in 2012, with the loan portfolio growing to \$321,277,000 at December 31, 2012, a \$19.3 million increase from December 31, 2011. All of this growth came from new production, not as a result of the acquisition. We were able to increase production in all loan areas; commercial, residential and consumer.

Stock Price and Dividend Payments

Quarterly dividends have been declared during 2012 at a rate of \$0.32 per share for each quarter. Due to general "fiscal cliff" concerns and the potential for tax increases at the time, our fourth quarter dividend was paid earlier than normal. The normalized annual dividend of \$1.28 per share represents a 4.2% cash return on the December 31, 2012 closing price of our stock of \$30.27. In general, our stock price varied between \$30.00 and \$35.00 per share for most of the year and is currently in the range of \$32.00 to \$33.00 per share as I write this letter. As we look back to 2010, our stock generally traded in the range of \$23.00 to \$26.00 per share and then in 2011 the general trading range was \$24.00 to \$26.00 until the fourth quarter of 2011 when increases took place ending 2011 at \$29.00 per share.

Clearly there are numerous market factors that impact stock prices but we are also pleased with the positive movement over the past few years.

Branch Purchase

In my letter to you last year, I was very optimistic about the branch purchase we had recently completed. It provided us entry into the Tiffin and Seneca County market plus grew our Clyde and Fremont business. Now, a year later, we have a year's worth of confirmation that this transaction already has been good for the organization and we remain equally as optimistic as we were a year ago. During 2012, we also had challenges presented from this transaction. Operational items and cultural integration actually went very well. Probably the most significant challenge was that of a reduced Net Interest Margin. With a significant inflow of deposits, a low interest rate environment for quality investments and the time it takes to restructure the deposit mix, the banks Net Interest Margin dropped during 2012. The future challenge is to rebuild this margin with loan growth and deposit mix management.

Employees & Retirees

So many employees have had a positive impact on Croghan Colonial Bank over our history. It is with happiness for them that I would like to acknowledge recent retirements:

- Robert "Bob" Overmyer, VP, Deposit Administrator & Security Officer, retired on January 4, 2013 after 42 years of service.
- Coleen Miller, East Banking Center Relationship Manager, retired on December 31st after almost 45 years of service.
- Elaine Blackmore, AVP & Private Banking Manager, retired on December 30th after almost 9 years of service.

In previous quarterly updates I mentioned several retired senior leaders who had passed away:

- Al Nichols, former President & Chairman of Croghan, passed away in June at age 93; 48 years of service.
- Former President Tom Hite had passed away in December 2011; 44 years of service.
- Jim Walter, SVP of Commercial Loans, passed away in March 2012; 42 years of service.

These individuals all played critical roles in the success of Croghan Colonial Bank and they will be missed.

Community Participation and Support

Initially, I thought about listing those organizations, events and/or programs supported in part by bank donations or employee participation and donations. The list immediately became too long for this letter and I would have certainly risked missing an important relationship. The bottom line is that I believe you would be proud of your bank if you were able to see the long list of community support and participation provided by your bank and our employees.

On a personal note, my wife Debbie and I had the wonderful opportunity to be the Chairmen of the Sandusky County United Way Campaign in 2012. This was an excellent way to learn more about numerous programs and we came away with tremendous respect for the amazing amount of volunteer support received and needed by important programs. Thanks to those giving of both time and money improving our community.

In closing, we continue to focus our efforts to have Croghan Colonial Bank be a top performer responding to the needs of our customers, our shareholders, our employees and our communities. On behalf of the Board and our employees, thank you for your continuing support.

Very truly yours,

A handwritten signature in black ink, appearing to read "Rick Robertson". The signature is written in a cursive style with a large initial "R".

Rick Robertson
President & CEO