CROGHAN
BANCSHARES, INC.

2019
ANNUAL REPORT

TICKER SYMBOL: CHBH   CROGHAN.COM   @CROGHANCOLONIAL   @CROGHAN

A MESSAGE FROM CEO KENDALL RIEMAN

We are happy to report 2019 was another record year for Croghan, and we are thrilled to share the message with our employees, shareholders, and communities.

Overall, the economic conditions have been favorable for banking. Our growth rates and financial performance is often in lockstep with the economic conditions of the markets we serve. Though growth rates in our markets are in the low single digits, it has been and continues to be positive. The low single-digit, yet positive economic growth coupled with continued positive employment trends have been a recipe for record results for our company.

While many news headlines drive predictions of doomsday and economic collapse, the actual results have been quite the opposite. While we do face challenges in banking, such as flat to inverted yield curve, tightening margins, technology, and cybersecurity costs, we have been successful in managing these risks. Managing risk is paramount to our business and with excellent financial results, it allows for adequate capital to be set aside to protect us should an economic downturn occur or for other risks that arise and could require capital to manage such events. Having earnings and capital puts us in a good position to manage the company through many different economic conditions or unforeseen risks should they arise.

Reviewing 2019 has been a fun process. Time moves so quickly and last year certainly seems like the fastest year yet. In reviewing our new products and services, we expanded our ATM service network by joining the MoneyPass network. This allows our clients free access to thousands of ATMs throughout the United States. We also upgraded our person-to-person payment abilities through our mobile banking app by adding Zelle®. Both of these new products allow clients to bank with us where they want, when they want and how they want.

For 2020, we are committed to providing improved products and services for our clients. We have plans to improve our digital services and increase access to our products and services utilizing the technology that is becoming available to companies like ours.

The challenges brought on by implementing new products and services are many. The employees that we have working to deliver these enhancements is the not-so-secret sauce that produces results. Our employees are knowledgeable, caring, dedicated and driven to make a difference. They are committed to constantly improving what they do. We are fortunate to have top-level tier people working for this company.

Our motto of "Helping Good People Make Good Decisions" fits our company well. It describes why we do what we do. We not only do this for our clients, but we also work to do this throughout our communities in many ways. Our company takes the obligation of helping our communities seriously. We do this with our time and by supporting with monetary contributions. Our employees spend countless hours volunteering, leading, directing and counseling many of the community and nonprofit groups throughout our service area. We are proud of our service to others and encourage everyone to help others whenever they are able.

Given the many positive things going on at Croghan, some may fear we may become complacent due to the ongoing success. Please be assured that we are not going to let that happen. Our employees, directors and management teams are focused on constantly improving the company to the benefit of our clients, communities, employees, and shareholders.

Thank you for your continued support. If you have not recently done so, let us know how we may help you with your financial goals. Whether it is for any deposit, loan or investment product, we can likely help you "make good decisions".

Kendall W. Rieman
President and CEO

CROGHAN BANCSHARES, INC.

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Investor Relations

Croghan Bancshares, Inc.
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Availability of More Information

To obtain a free copy of the Corporation's Annual Report for the year ended December 31, 2019, or for other information, contact us by one of the methods noted above.

Annual Meeting

The Annual Meeting of Shareholders:

WHEN: Tuesday, May 12, 2020
1:00 pm Eastern Time

WHERE: Terra State Community College
Neeley Conference Center
2830 Napoleon Road
Fremont, OH 43420

CROGHAN BANCSHARES, INC.

DESCRIPTION OF THE CORPORATION

Croghan Bancshares, Inc. ("Croghan"), an Ohio corporation, is a financial holding company incorporated in 1983 with $876,792,000 in total assets as of December 31, 2019. Croghan owns all of the outstanding shares of The Croghan Colonial Bank ("Bank"), an Ohio state-chartered bank incorporated in 1888 and headquartered in Fremont, Ohio, and Croghan Risk Management Inc., a captive insurance company, incorporated in 2016.

The Bank offers a diverse range of commercial and retail banking services through its 17 banking centers located in Bellevue, Clyde, Curtice, Fremont, Green Springs, Monroeville, Norwalk, Oak Harbor, Oregon, Port Clinton, and Tiffin, Ohio, as well as one Loan Production office located in Maumee, Ohio. Products are comprised of traditional banking services such as consumer, commercial, agricultural and real estate loans, personal and business checking accounts, savings accounts, time deposit accounts, safe deposit box services, and trust department services. Investment products bearing no FDIC insurance are offered through the Bank's Trust and Investment Services Division.

MARKET PRICE AND DIVIDENDS ON COMMON SHARES

Croghan's common shares are quoted on the OTCQX under the symbol "CHBH." The following shows the range of high and low price quotations, as reported on the OTCQX, for Croghan's common shares for each quarterly period during 2019 and 2018. OTCQX quotations reflect inter-dealer prices, without mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	2019		2018	
	Low	**High**	**Low**	**High**
First Quarter	$49.00	$53.97	$49.34	$54.65
Second Quarter	50.80	54.88	52.10	58.75
Third Quarter	52.25	54.11	55.60	59.25
Fourth Quarter	51.76	59.99	49.30	58.25

Net income, basic net income per share data, and dividends declared by Croghan on its common shares during the past two years are as follows (dollars in thousands, except per share data):

2019	**Net income**	**Basic net income per share**	**Dividend per share**
First quarter	$ 2,734	$ 1.20	$ .45
Second quarter	2,930	1.29	.47
Third quarter	3,731	1.64	.47
Fourth quarter	3,127	1.39	.49
Total	$12,522	$5.52	$1.88

2018	**Net income**	**Basic net income per share**	**Dividend per share**
First quarter	$ 2,946	$ 1.29	$ .39
Second quarter	3,216	1.41	.40
Third quarter	2,964	1.29	.42
Fourth quarter	2,876	1.26	.45
Total	$12,002	$5.25	$1.66

The ability of Croghan to declare and pay dividends on its common shares is dependent, in large part, on dividends received from the Bank. The ability of the Bank to pay dividends is subject to certain legal and regulatory limitations described in Note 17 to the consolidated financial statements contained in the Annual Report.

CROGHAN BANCSHARES, INC.

THREE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Years ended December 31,		
	2019	2018	2017
	(Dollars in thousands, except share data)		
Statements of operations:			
Total interest income	$37,590	$34,950	$33,173
Total interest expense	4,325	2,887	2,072
Net interest income	33,265	32,063	31,101
Provision for loan losses	825	570	600
Net interest income, after provision for loan losses	32,440	31,493	30,501
Total non-interest income	7,243	6,176	6,166
Total non-interest expenses	24,673	23,509	23,536
Income before federal income taxes	15,010	14,160	13,131
Federal income taxes	2,488	2,158	2,882
Net income	$12,522	$12,002	$10,249
Per share of common stock:			
Net income - Basic	$ 5.52	$ 5.25	$ 4.49
Net income - Diluted	5.51	5.25	4.48
Dividends	1.88	1.66	1.48
Book value	54.78	50.45	47.64
Tangible book value	44.48	40.07	37.06
Average shares of common stock outstanding	2,270,143	2,284,158	2,284,145
Year-end balances:			
Loans, net	$631,853	$608,325	$584,819
Securities	166,077	160,108	179,955
Total assets	876,792	847,552	843,037
Deposits	686,847	672,973	678,138
Stockholders' equity	123,551	114,970	108,866
Selected ratios:			
Net yield on average interest-earning assets	4.21%	4.22%	4.23%
Return on average assets	1.46	1.45	1.24
Return on average stockholders' equity	10.31	10.67	9.67
Net loan charge-offs as a percent of average outstanding net loans	.07	.04	.03
Allowance for loan losses as a percent of year-end loans	.94	.91	.88
Stockholders' equity as a percent of total year-end assets	14.09	13.56	12.91
Cash dividends declared as a percent of net income	34.04	31.58	32.99
Number of stockholders of record	978	957	995
Number of full-time equivalent employees	207	203	205

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Independent Auditor's Report

To the Board of Directors
Croghan Bancshares, Inc.

We have audited the accompanying consolidated financial statements of Croghan Bancshares, Inc. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019 and 2018 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Croghan Bancshares, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Croghan Bancshares, Inc. and its subsidiaries as of December 31, 2019 and 2018 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 7, 2020

CROGHAN BANCSHARES, INC.

CONSOLIDATED BALANCE SHEET

ASSETS	December 31, 2019	December 31, 2018
	(Dollars in thousands, except per share data)	
CASH AND CASH EQUIVALENTS	$ 20,617	$ 20,537
SECURITIES		
Available-for-sale, at fair value	160,203	154,234
Restricted stock	5,874	5,874
Total securities	166,077	160,108
LOANS	637,819	613,885
Less: Allowance for loan losses	5,966	5,560
Net loans	631,853	608,325
PREMISES AND EQUIPMENT, NET	10,313	10,102
CASH SURRENDER VALUE OF LIFE INSURANCE	18,171	17,873
GOODWILL	22,416	22,416
CORE DEPOSIT INTANGIBLE ASSETS, NET	816	1,242
ACCRUED INTEREST RECEIVABLE	2,929	2,985
OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS	146	170
OTHER ASSETS	3,454	3,794
TOTAL ASSETS	$876,792	$847,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand, non-interest bearing	$211,455	$197,961
Savings, NOW, and Money Market deposits	355,852	350,422
Time	119,540	124,590
Total deposits	686,847	672,973
Federal funds purchased and securities sold under repurchase agreements	42,808	36,973
Borrowed funds	17,609	17,222
Dividends payable	1,105	1,026
Other liabilities	4,872	4,388
Total liabilities	753,241	732,582
STOCKHOLDERS' EQUITY		
Common stock, $12.50 par value. Authorized 6,000,000 shares; issued 2,506,208 shares in 2019 and 2018	31,328	31,328
Surplus	13,132	13,070
Retained earnings	87,363	79,104
Accumulated other comprehensive income (loss)	1,143	(466)
Treasury stock, 250,896 shares in 2019 and 227,298 in 2018, at cost	(9,415)	(8,066)
Total stockholders' equity	123,551	114,970
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$876,792	$847,552

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

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31, 2019	2018
	(Dollars in thousands, except per share data)	
INTEREST INCOME		
Loans, including fees	$ 32,996	$30,049
Securities:		
Obligations of U.S. Government agencies and corporations	1,553	1,616
Obligations of states and political subdivisions	2,495	2,826
Other	311	340
Deposits in other banks	235	119
Total interest income	37,590	34,950
INTEREST EXPENSE		
Deposits	3,870	2,700
Other borrowings	455	187
Total interest expense	4,325	2,887
Net interest income	33,265	32,063
PROVISION FOR LOAN LOSSES	825	570
Net interest income, after provision for loan losses	32,440	31,493
NON-INTEREST INCOME		
Trust income	1,912	1,857
Service charges on deposit accounts	2,026	2,076
Gain on sale of loans	766	667
Gain (loss) on sale of securities	896	(45)
Other	1,643	1,621
Total non-interest income	7,243	6,176
NON-INTEREST EXPENSES		
Salaries, wages, and employee benefits	15,007	14,279
Occupancy of premises	1,163	1,117
Amortization of core deposit intangible assets	426	529
Other	8,077	7,584
Total non-interest expenses	24,673	23,509
Income before federal income taxes	15,010	14,160
FEDERAL INCOME TAXES	2,488	2,158
NET INCOME	$12,522	$12,002
NET INCOME PER SHARE		
Basic	$ 5.52	$ 5.25
Diluted	$ 5.51	$ 5.25

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

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, 2019	2018
	(Dollars in thousands)	
NET INCOME	$12,522	$12,002
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on available-for-sale securities	2,933	(2,081)
Reclassification adjustments for securities (gain) loss included in income	(896)	45
Net unrealized gain (loss)	2,037	(2,036)
Income tax effect	428	(428)
Other comprehensive income (loss)	1,609	(1,608)
TOTAL COMPREHENSIVE INCOME	$ 14,131	$10,394

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

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
	Year ended December 31, 2019 and 2018					
	(Dollars in thousands, except per share data)					
BALANCE AT DECEMBER 31, 2017	$31,328	$13,122	$71,080	$ 954	$(7,618)	$108,866
Net income	-	-	12,002	-	-	12,002
Reclassification of certain deferred tax effects	-	-	(188)	188	-	-
Stock options exercised (3,625 shares from treasury)	-	(49)	-	-	140	91
Issuance of restricted stock (3,120 shares from treasury)	-	(120)	-	-	120	-
Other comprehensive income	-	-	-	(1,608)	-	(1,608)
Stock-based compensation expense	-	117	-	-	-	117
Purchase of treasury stock (12,922 shares)	-	-	-	-	(708)	(708)
Cash dividends declared, $1.66 per share	-	-	(3,790)	-	-	(3,790)
BALANCE AT DECEMBER 31, 2018	$31,328	$13,070	$79,104	$ (466)	$(8,066)	$114,970
Net income	-	-	12,522	-	-	12,522
Stock options exercised (3,250 shares from treasury)	-	(42)	-	-	123	81
Issuance of restricted stock (2,640 shares from treasury)	-	(100)	-	-	100	-
Forfeit of restricted stock (1,092 shares to treasury)	-	41	-	-	(41)	-
Other comprehensive income	-	-	-	1,609	-	1,609
Stock-based compensation expense	-	163	-	-	-	163
Purchase of treasury stock (28,396 shares)	-	-	-	-	(1,531)	(1,531)
Cash dividends declared, $1.88 per share	-	-	(4,263)	-	-	(4,263)
BALANCE AT DECEMBER 31, 2019	$31,328	$13,132	$87,363	$1,143	$(9,415)	$123,551

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

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2019	2018
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 12,522	$ 12,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	926	822
Loan discount accretion	(528)	(634)
Core deposit intangible amortization	426	529
Provision for loan losses	825	570
Deferred federal income taxes	46	100
Gain on sale of loans	(766)	(667)
Net loss (gain) on sale or write-down of other real estate owned	25	(3)
Increase in cash value of life insurance	(298)	(282)
Net amortization of security premiums and discounts	1,289	1,724
Stock-based compensation expense	163	117
(Gain) loss on sale of securities	(896)	45
Proceeds from sale of loans, net of originations	508	468
Decrease (increase) in accrued interest receivable	56	(16)
Decrease in other assets	(70)	(153)
Increase in other liabilities	438	120
Net cash provided by operating activities	14,666	14,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities	30,474	25,488
Proceeds from sales of available-for-sale securities	19,267	15,665
Purchases of available-for-sale securities	(54,084)	(25,113)
Proceeds from sale of other real estate owned	186	384
Proceeds from disposal of premises	125	-
Net increase in loans	(23,754)	(23,546)
Additions to premises and equipment	(1,262)	(870)
Net cash used in investing activities	(29,048)	(7,992)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended December 31, 2019	2018
	(Dollars in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	$ 13,874	$ (5,165)
Increase in federal funds purchased and securities sold under repurchase agreements	5,835	8,834
Proceeds from borrowings	17,500	17,000
Repayments of borrowings	(17,113)	(22,636)
Cash dividends paid	(4,184)	(3,632)
Cash used in purchase of treasury shares	(1,531)	(708)
Cash received from exercising options	81	91
Net cash provided by (used in) financing activities	14,462	(6,216)
NET INCREASE IN CASH AND CASH EQUIVALENTS	80	534
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,537	20,003
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 20,617	$ 20,537
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	$ 4,324	$ 2,780
Federal income taxes	$ 2,265	$ 1,788
Non-cash operating and investing activity:		
Transfer of loans to other real estate owned	$ 187	$ 303

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Croghan Bancshares, Inc. (the “Corporation”) was incorporated on September 27, 1983 in the State of Ohio. The Corporation is a financial holding company and has two wholly-owned subsidiaries, The Croghan Colonial Bank (the “Bank”) and Croghan Risk Management, Inc (the “Captive”). The Corporation, through its subsidiaries, operates in one industry segment, the commercial banking industry. The Bank, an Ohio chartered bank organized in 1888, has its main office in Fremont, Ohio and has branch offices located in Bellevue, Clyde, Curtice, Fremont, Green Springs, Monroeville, Norwalk, Oak Harbor, Oregon, Port Clinton, and Tiffin Ohio, and a loan production office in Maumee, Ohio. The Bank’s primary source of revenue is providing loans to clients primarily located in Huron, Lucas, Ottawa, Sandusky, Seneca, and Wood Counties. Such clients are predominantly small and middle-market businesses and individuals.

In August of 2016, the Corporation became a financial holding company within the meaning of the Bank Holding Company Act of 1956 as amended, in order to provide the flexibility to take advantage of the expanded powers available to a financial holding company under the Act. The Bank is regulated and examined by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation. The activities of our bank subsidiary are also subject to other federal and state laws and regulations. The Corporation formed a Captive insurance company in August 2016. The Captive is located in Nevada and regulated by the State of Nevada Division of Insurance.

Significant accounting policies followed by the Corporation are presented below.

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The most significant estimates susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of goodwill and intangible assets, fair value of investment securities and other financial instruments, and the valuation of deferred taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its two wholly-owned subsidiaries, the Bank and the Captive. All significant intercompany balances and transactions have been eliminated in consolidation.

The Bank established a trust department in 1990 and the assets held by the Bank in fiduciary or agency capacities for its clients are not included in the consolidated balance sheets as such items are not assets of the Bank.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold which mature overnight or within 90 days.

Restrictions on Cash

The Bank is required to maintain a minimum reserve with the Federal Reserve Bank in the form of vault cash, or if vault cash is insufficient to satisfy the requirement, in the form of a balance maintained directly with the Federal Reserve Bank. Based on vault cash on hand, the Bank did not have a required minimum daily average of non-interest bearing deposits with the Federal Reserve Bank at December 31, 2019 and as of December 31, 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

The Bank has designated all its securities as available-for-sale. Such securities are carried at fair value, with unrealized gains and losses, net of applicable income taxes, on such securities recognized as a separate component of stockholders' equity.

The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to the shorter of the call or maturity date. Such amortization and accretion is included in interest income from securities, principally using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary ("OTTI") are reflected in earnings as realized losses. Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the intent to sell the investment securities and whether it's more likely than not that the Corporation will be required to sell the investment securities prior to recovery, (2) the length of time and extent to which the fair value has been less than cost, and (3) the financial condition and near-term prospects of the issuer. Due to potential changes in conditions, it is at least reasonably possible that changes in management's assessment of OTTI will occur in the near term and that such changes could be material to the amounts reported in the Corporation's consolidated financial statements.

Effective January 1, 2018, equity securities are reported at their fair value with changes in market value flowing through net income. Prior to 2018, equity securities were accounted for in a manner similar to available for sale debt securities.

Investments in equity securities without readily determinable fair value are recorded at cost and adjusted for any observable changes in price. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. No impairment losses were recognized for 2019 and 2018.

Realized gains and losses on sales of securities are recorded on the trade date, using the specific identification method, and are included in non-interest income.

Restricted stock primarily consists of Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland stock. Such securities are carried at cost and evaluated for impairment on an annual basis. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at their outstanding principal balances, adjusted for charge-offs, the allowance for loan losses, and any deferred loan fees or costs on originated loans. Interest is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than 120 days past due and credit card loans are typically charged-off no later than 180 days past due. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Acquired Loans

Purchased loans acquired in a business combination are segregated into three types: pass rated loans with no discount attributable to credit quality, non-impaired loans with a discount attributable at least in part to credit quality, and impaired loans with evidence of significant credit deterioration.

• Pass rated loans (typically performing loans) are accounted for in accordance with Accounting Standards Codification (ASC) 310-20 "Nonrefundable Fees and Other Costs" as these loans do not have evidence of credit deterioration since origination.

• Non-impaired loans (typically past-due loans, special mention loans, and performing substandard loans) are accounted for in accordance with ASC 310-30 "Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality" as they display at least some level of credit deterioration since origination.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

• Impaired loans (typically substandard loans on non-accrual status) are accounted for in accordance with ASC 310-30 as they display significant credit deterioration since origination. In accordance with ASC 310-30, for both purchased non-impaired loans and purchased impaired loans, the difference between contractually required payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. This amount is not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Furthermore, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. If the Bank does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition.

Allowance for Loan Losses

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

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

The allowance consists of specific, general, and unallocated components. For loans that are classified as impaired, a specific reserve is established when the discounted cash flow (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers classified (i.e., substandard or special mention) loans which are not impaired, as well as non-classified loans and is generally based on historical loss experience adjusted for qualitative factors. The unallocated component is maintained to cover economic and other external factors that could affect management's estimate of probable losses and considers the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Under certain circumstances, the Bank may provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Concessions may include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt. TDR loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment, as previously described. TDR loans that have performed as agreed under the restructured terms for a period of 12 months or longer may cease to be reported as a TDR loan. However, the loan continues to be individually evaluated for impairment.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment

Land is carried at cost. Premises and equipment is stated at cost, less accumulated depreciation. Depreciation is determined based on the estimated useful lives of the individual assets (typically 20 to 40 years for buildings and 3 to 10 years for equipment) and is computed primarily using the straight-line method. Upon the sale or disposition of the assets, the difference between the depreciated cost and proceeds is charged or credited to income.

Cash Surrender Value of Life Insurance

Cash surrender value of life insurance is equal to the cash surrender value of the underlying policies or the policy death proceeds, less any obligation to provide benefit to the insured beneficiaries, if that value is less than the cash surrender value. Income on the investments in the policies, net of insurance costs, is recorded as non-interest income.

Goodwill and Other Intangible Assets

Goodwill is not amortized, but rather is subject to impairment tests annually, or more frequently if triggering events occur and indicate potential impairment. The Corporation's annual impairment test was performed as of December 31, 2019. The Corporation has elected to perform a qualitative analysis that became acceptable as a result of ASU 2011-08, *Testing Goodwill for Impairment*. As a result of performing the qualitative analysis, the Corporation determined that it was not more likely than not that goodwill was impaired at December 31, 2019. The Corporation determined no triggering events occurred subsequent to the date of the annual impairment test that indicate goodwill was impaired as of December 31, 2019.

Core deposit intangible assets arising from previous branch acquisitions are being amortized over ten years using the sum of the year's digits amortization method.

Estimated future amortization of core deposit intangible assets is as follows: 2020, $332,000; 2021, $244,000; 2022, $160,000; 2023, $80,000.

Other Real Estate Owned

Assets acquired through or in lieu of foreclosure are initially recorded at fair value, less estimated costs to sell, and any loan balance in excess of fair value is charged to the allowance for loan losses. Subsequent valuations are periodically performed and any further write-downs are included in other operating expenses, as are gains or losses upon sale and expenses related to maintenance of the properties.

Servicing

Mortgage servicing rights ("MSRs") are recognized as an asset when acquired through sale of loans. Capitalized servicing rights are reported in other assets and amortized to expense in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. MSRs are evaluated for impairment by a third party on an annual basis and based upon the estimated fair value of the rights as compared to amortized cost. The fair value of MSRs was estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration expected prepayment rates, discount rates, servicing costs, and other economic factors that are based on current market conditions. The prepayment rates and the discount rates are the most significant factors affecting valuation of the MSRs. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If the Company later determines all or a portion of impairment no longer exists for a particular reason, the valuation allowance is reverted into income.

Servicing fee income is recorded for fees earned for servicing loans and is included in noninterest income, net of amortization of MSRs.

Federal Funds Purchased and Securities Sold under Repurchase Agreements

Securities sold under agreements to repurchase with customers and federal funds purchased have scheduled maturities of one year or less. Securities sold under repurchase agreements are collateralized financing transactions and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheet. The dollar amount of the securities underlying the agreements remain in the Corporation's investment security portfolio.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Supplemental Retirement Benefits

Annual provisions are made for the estimated liability for accumulated supplemental retirement benefits under agreements with various officers and employees. These provisions are determined based on the terms of the agreements, as well as certain assumptions, including estimated service periods and discount rates.

Advertising Costs

All advertising costs are expensed as incurred.

Federal Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns. Benefits from tax positions taken or expected to be taken in a tax return are not recognized if the likelihood that the tax position would be sustained upon examination by a taxing authority is considered to be 50% or less. Interest and penalties resulting from the filing of income tax returns is a component of income tax expenses.

The Bank is not currently subject to state and local income taxes.

Comprehensive Income

Recognized revenue, expenses, and gains and losses are included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Treasury Stock

Common shares repurchased are recorded at cost. Cost of shares reissued is determined using the first-in, first-out method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Per Share Data

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be used by the Corporation relate solely to outstanding stock options and are determined using the treasury stock method.

The weighted average number of shares outstanding for the years ended December 31, 2019 and 2018 follows:

	2019	2018
Basic	2,270,143	2,284,158
Diluted	2,271,228	2,287,033

Dividends per share are based on the number of shares outstanding at the declaration date.

Subsequent Events

The financial statements and related disclosures include the evaluation of events up through and including February 7, 2020, which is the date the consolidated financial statements were available to be issued.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including the Corporation's loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Corporation's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We expect the standard to have a significant effect on the Corporation's consolidated financial statements as credit losses will be accelerated with the elimination of the probable threshold for initial recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes the requirements in ASC Topic 840, Leases. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Previously, leases were classified as either capital or operating with only capital leases recognized on the balance sheet. This update was effective for the Corporation's year ending December 31, 2019. The Company adopted this guidance in 2019. The Company has elected to account for lease and related non-lease components as a single lease component. The Company has also elected to not recognize right-of-use assets and lease liabilities arising from short-term leases, which are twelve months or less. Implementation of the guidance does not have a material impact on the Company's other consolidated financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2019 and 2018 were as follows (dollars in thousands):

	2019	2018
Cash and due from banks	$15,044	$18,823
Interest-bearing deposits in other banks	5,573	1,714
Total	$20,617	$20,537

NOTE 4 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2019 and 2018 were as follows (dollars in thousands):

	2019		2018	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ 9,693	$ 9,728	$ 11,553	$ 11,489
Collateralized mortgage obligations	54,498	54,347	49,533	48,525
Mortgage backed securities	3,572	3,661	3,152	3,122
SBA loan pools	2,022	2,006	566	564
Obligations of states and political subdivisions	88,621	90,111	89,670	90,184
Other	350	350	350	350
Total available-for-sale	158,756	160,203	154,824	154,234
Restricted stock	5,874	5,874	5,874	5,874
Total	$164,630	$166,077	$160,698	$160,108

NOTE 4 - SECURITIES (CONTINUED)

A summary of gross unrealized gains and losses on securities at December 31, 2019 and 2018 follows (dollars in thousands):

	2019		2018	
	Gross unrealized gains	**Gross unrealized losses**	**Gross unrealized gains**	**Gross unrealized losses**
Available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ 37	$ 2	$ 5	$ 69
Collateralized mortgage obligations	301	452	84	1,092
Mortgage backed securities	89	-	20	50
SBA loan pools	-	16	-	2
Obligations of states and political subdivisions	1,972	482	931	417
Total available-for-sale	$ 2,399	$ 952	$ 1,040	$ 1,630

The amortized cost and fair value of securities at December 31, 2019, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands).

	Available-for-sale	
	Amortized cost	**Fair value**
Due in one year or less	$ 26,248	$ 26,435
Due after one year through five years	58,633	59,239
Due after five years through ten years	57,941	58,976
Due after ten years	15,584	15,203
Other equity security having no stated maturity date	350	350
Total	$ 158,756	$ 160,203

Securities with a carrying value of $136,015,000 at December 31, 2019 and $111,016,000 at December 31, 2018 were pledged to secure public deposits and for other purposes as required or permitted by law. Securities with a carrying value of $43,144,000 at December 31, 2019 and $36,725,000 at December 31, 2018 were pledged to secure accounts with overnight sweep repurchase agreements.

Restricted stock primarily consists of investments in Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland stock. The Bank's investment in Federal Home Loan Bank of Cincinnati stock amounted to $3,342,000 at December 31, 2019 and December 31, 2018. The Bank's investment in Federal Reserve Bank of Cleveland stock amounted to $2,337,000 at December 31, 2019 and December 31, 2018.

Gross gains realized from sales of securities available-for-sale amounted to $896,000 in 2019 and $41,000 in 2018 with the income tax provision applicable to such gains amounting to $188,000 in 2019 and $9,000 in 2018. Gross realized losses from sales of securities available-for-sale amounted to $0 in 2019 and $86,000 in 2018, with the income tax provision applicable to such losses amounting to $18,000 in 2018.

NOTE 4 - SECURITIES (CONTINUED)

The following presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018 (dollars in thousands):

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2019						
Obligations of U.S. Government						
Corporations agencies and	$ -	$ -	$ 2	2,007	$ 2	$ 2,007
Collateralized mortgage obligations	79	15,753	59	4,686	138	20,439
Mortgage backed securities	-	-	314	9,190	314	9,190
SBA loan pools	12	1,610	4	396	16	2,006
Obligations of states and political subdivisions	482	27,325	-	-	482	27,325
Total temporarily impaired securities	$ 573	$ 44,688	$ 379	$ 16,279	$ 952	$ 60,967
2018						
Obligations of U.S. Government						
Corporations agencies and	$ 24	$ 6,008	$ 45	$ 4,973	$ 69	$ 10,981
Collateralized mortgage obligations	78	9,410	-	-	78	9,410
Mortgage backed securities	15	1,700	1,049	35,700	1,064	37,400
SBA loan pools	2	564	-	-	2	564
Obligations of states and political subdivisions	47	9,497	370	17,754	417	27,251
Total temporarily impaired securities	$ 166	$ 27,179	$1,464	$ 58,427	$ 1,630	$ 85,606

At December 31, 2019, there were 64 securities in an unrealized loss position, with 20 being in a continuous unrealized loss position for twelve months or more. When evaluating these securities for impairment, management considers the issuer's financial condition, whether the securities are issued by federally-sponsored government agencies or political subdivisions, whether downgrades by the bond rating agencies have occurred, industry analyst reports, and volatility in the bond market. Management has concluded that the unrealized losses as of December 31, 2019 were primarily the result of customary and expected fluctuations in the bond market related to changes in interest rates. As management has the ability and intent to hold debt securities until recovery and meets the more likely than not requirement regarding the ability to hold securities for a period of time sufficient to allow for any anticipated recovery in fair value for securities classified as available-for-sale, all security impairments as of December 31, 2019 are considered temporary.

NOTE 5 - LOANS

Most of the Bank's lending activity is with clients primarily located within Huron, Lucas, Ottawa, Sandusky, Seneca, and Wood Counties. Credit concentrations, as determined using the North American Industry Classification System, that exceeded 25% of tier one capital at December 31, 2019 and 2018, follows (dollars in thousands):

	Year ended December 31	
Category	**2019**	**2018**
Residential and Investment Properties	$114,375	$100,423
Nonresidential Investment Properties	148,622	150,837
Accommodation and Food Service	40,661	30,246
Construction	26,752	31,717
Manufacturing	35,025	28,876
Retail Trade	25,837	26,634

The construction industry concentration includes loans to residential and commercial contractors who construct or install roads, sewers, bridges, homes, hotels, motels, apartment or commercial buildings, electrical and plumbing infrastructure, and air comfort systems. These loans are generally secured by real property, equipment, and receivables. Repayment is expected from cash flow from providing such services. The accommodation and food service industry concentration includes loans for the construction, purchase, and operation of hotels, restaurants, lounges, and campgrounds. These loans are generally secured by real property and equipment. Repayment is expected from cash flow from providing accommodations and food service to tourists, primarily visiting the Lake Erie region. The retail trade industry concentration includes floor plan loans and other retail business loans, which are secured by real property.

The manufacturing industry concentration includes loans to local manufacturers who produce goods for a wide variety of industries, including chemical, automotive, and food processing. These loans are generally secured by real property, equipment, and receivables. Repayment is expected from cash flows generated from these operations. The Residential and Investment Property concentration includes loans to residential and apartment or buildings. These loans are generally secured by real property. Repayment is expected from personal cash flow or from providing such services. The Non-Residential Buildings concentration includes loans on office buildings, strip centers, or other industrial buildings. The residential investment property concentration includes 1-4 family housing and apartment 5 plus units. Residential and non-residential loans are generally secured by real property. Repayment is expected from rent or cash flow from operations in such services.

Commercial, construction, and agricultural real estate loans are subject to underwriting standards and processes similar to commercial and agricultural operating loans, in addition to those unique to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial and agricultural real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loan-to-value is generally 75% of the cost or value of the assets. Appraisals on properties securing these loans are generally performed by appraisers approved by the Board of Directors. Because payments on commercial and agricultural real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial and agricultural real estate loans based on collateral and risk rating criteria. The Bank generally requires guarantees on these loans. The Bank's commercial and agricultural real estate loans are secured primarily by properties located in its primary market area.

Commercial and agricultural operating loans are underwritten based on the Bank's examination of current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. This underwriting standard includes the evaluation of cash flows of the borrower, underlying collateral, if applicable, and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans may fluctuate in value after the initial evaluation. A first priority lien on the general assets of the business normally secures these types of loans. Loan-to-value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and hail insurance is recommended for most agricultural borrowers. Loans are generally guaranteed by the principal owner. The Bank's commercial and agricultural operating loan lending is primarily in its market area.

NOTE 5 - LOANS (CONTINUED)

Land development loans are underwritten utilizing independent appraisals, sensitivity analysis of absorption, vacancy, lease rates, and financial analysis of the developers and property owners. Land development loans are generally based upon estimates of costs and values associated with the completed project, and are subjective by nature. Land development loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions, and the availability of long-term financing. The Bank generally requires guarantees on these loans. The Bank's land development loans are secured primarily by properties located in its primary market area.

The Bank originates 1 to 4 family real estate and consumer loans utilizing credit reports to supplement the underwriting process. The Bank's underwriting standards for 1 to 4 family loans are generally in accordance with FHLMC and FNMA underwriting guidelines. Properties securing 1 to 4 four family real estate loans are appraised by appraisers who are independent of the loan origination function and have been approved by the Board of Directors. The loan-to-value ratios normally do not exceed 80% without credit enhancements such as mortgage insurance. The Bank will lend up to 100% of the lesser of the appraised value or purchase price for conventional 1 to 4 family real estate loans, provided private mortgage insurance is obtained. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. To monitor and manage loan risk, policies and procedures are developed, and modified as needed by management. This activity, coupled with smaller loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis. The Bank's 1 to 4 family real estate loans are secured primarily by properties located in its primary market area.

The Bank maintains an internal credit analysis department that reviews and validates the credit risk program on a periodic basis, as well as an external loan review performed annually or semi-annually. Results of these reviews are presented to management and the Audit Committee of the Board of Directors. The credit analysis and loan review processes compliment and reinforce the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank's policies and procedures.

NOTE 5 - LOANS (CONTINUED)

The following presents the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2019 and 2018 (dollars in thousands):

		Real Estate					
	Commercial	Residential	Non-residential	Construction	Consumer	Credit card	Total
2019							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 44	$ 6	$ -	$ -	$ -	$ 50
Collectively evaluated for impairment	581	961	3,139	235	917	83	5,916
Total	$ 581	$ 1,005	$ 3,145	$ 235	$ 917	$ 83	$ 5,966
Loans:							
Loans individually evaluated for impairment	$ 154	$ 2,547	$ 982	$ -	$ 3	$ -	$ 3,686
Loans acquired with deteriorated credit quality	-	299	213	-	-	-	512
Loans collectively evaluated for impairment	67,536	115,156	338,115	23,369	86,055	3,390	633,621
Total	$67,690	$118,002	$339,310	$23,369	$86,058	$3,390	$637,819
2018							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 55	$ 8	$ -	$ -	$ -	$ 63
Collectively evaluated for impairment	482	926	3,008	113	887	81	5,497
Total	$ 482	$ 981	$ 3,016	$ 113	$ 887	$ 81	$ 5,560
Loans:							
Loans individually evaluated for impairment	$ 169	$ 2,557	$ 516	$ -	$ 5	$ -	$ 3,247
Loans acquired with deteriorated credit quality	-	330	220	-	-	-	550
Loans collectively evaluated for impairment	63,221	119,220	332,286	14,321	77,608	3,432	610,088
Total	$63,390	$122,107	$333,022	$14,321	$77,613	$3,432	$613,885

NOTE 5 - LOANS (CONTINUED)

The following represents loans individually evaluated for impairment by class of loans as of December 31, 2019 and 2018 (dollars in thousands):

	2019			2018		
	Unpaid principal balance	**Recorded investment**	**Allowance for loan losses allocated**	**Unpaid principal balance**	**Recorded investment**	**Allowance for loan losses allocated**
With no related allowance recorded:						
Commercial loans	$ 172	$ 154	$ -	$ 253	$ 159	$ -
Residential real estate loans						
Open-end home equity	126	103	-	215	183	-
1 – 4 family (1st mortgages)	578	262	-	663	396	-
Non-residential real estate loans						
Non-farm	1,489	600	-	957	56	-
Consumer - other	6	3	-	10	5	-
With an allowance recorded:						
Commercial loans	-	-	-	10	10	-
Residential real estate loans						
Open-end home equity	657	648	9	346	346	6
1 – 4 family (1st mortgages)	1,866	1,833	35	1,997	1,962	49
Non-residential real estate loans						
Non-farm	595	595	6	680	680	8
Consumer - Other	-	-	-	-	-	-
Total	$ 5,489	$ 4,198	$ 50	$ 5,131	$ 3,797	$ 63

The following is additional information with respect to impaired loans for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019	**2018**
Average investment in impaired loans	$ 4,084	$ 3,592
Interest income recognized on impaired loans	$ 232	$ 159
Interest income recognized on a cash basis on impaired loans	$ -	$ -

No additional funds are committed to be advanced in connection with impaired loans.

NOTE 5 - LOANS (CONTINUED)

The following represents a summary of the number and recorded investments of trouble debt restructurings ("TDR') occurring during the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019		2018	
	Number	**Amount**	**Number**	**Amount**
Open-end home equity	9	$ 256	2	$ 102
1 – 4 family real estate (1st mortgage)	2	43	2	153
Non-farm non-residential	1	23	-	-
Consumer – vehicle	-	-	1	5
Total recorded investments	12	$ 322	5	$ 260

There was $4,000 in specific reserves relating to loans that were modified in TDR in 2019 and $4,000 in 2018.

The post-modification balances approximate the pre-modification balances. The aggregate amount of charge-offs resulting from restructuring are not significant.

There were no TDR that subsequently defaulted within twelve months of the date of modification during the years ended December 31, 2019 and 2018.

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in TDR or whose loans are on nonaccrual.

NOTE 5 - LOANS (CONTINUED)

The following presents the recorded investment in past due and non-accrual loans as of December 31, 2019 and 2018 by class of loans (dollars in thousands).

	Loans past due accruing interest 30 – 89 days	Loans past due accruing interest 90+ days	Total	Loans on non-accrual	Loans not past due or non-accrual	Total
2019						
Commercial loans:						
Agricultural loans	$ 3	$ -	$ 3	$ -	$ 3,082	$ 3,085
Commercial loans	66	-	66	153	62,464	62,683
Overdraft LOC	-	-	-	-	320	320
Non-profit/political subdivisions	-	-	-	-	1,602	1,602
Residential real estate loans:						
Open-end home equity	259	32	291	74	25,929	26,294
1 – 4 family (1st mortgages)	546	-	546	408	89,906	90,860
1 – 4 family (Jr. mortgages)	-	-	-	-	848	848
Non-residential real estate loans:						
Multifamily	-	-	-	-	65,580	65,580
Farm	-	-	-	-	7,990	7,990
Non-farm	669	591	1,260	-	264,480	265,740
Construction real estate loans	-	-	-	-	23,369	23,369
Consumer loans:						
Vehicle	167	8	175	-	36,749	36,924
Overdraft LOC	-	-	-	-	160	160
Mobile home	19	-	19	-	2,226	2,245
Home improvement	-	-	-	-	68	68
Other	39	-	39	-	46,622	46,661
Credit card	29	11	40	-	3,350	3,390
Total	$ 1,797	$ 642	$ 2,439	$ 635	$ 634,745	$ 637,819
2018						
Commercial loans:						
Agricultural loans	$ 15	$ -	$ 15	$ -	$ 3,233	$ 3,248
Commercial loans	75	-	75	154	57,271	57,500
Overdraft LOC	-	-	-	-	739	739
Non-profit/political subdivisions	-	-	-	-	1,903	1,903
Residential real estate loans:						
Open-end home equity	86	30	116	149	26,249	26,514
1 – 4 family (1st mortgages)	617	237	854	405	92,984	94,243
1 – 4 family (Jr. mortgages)	-	-	-	-	1,350	1,350
Non-residential real estate loans:						
Multifamily	-	-	-	-	51,526	51,526
Farm	-	-	-	-	7,646	7,646
Non-farm	4	13	17	-	273,833	273,850
Construction real estate loans	-	-	-	-	14,321	14,321
Consumer loans:						
Vehicle	161	20	181	-	32,072	32,253
Overdraft LOC	3	-	3	-	190	193
Mobile home	17	-	17	-	2,391	2,408
Home improvement	-	-	-	-	198	198
Other	131	1	132	-	42,429	42,561
Credit card	25	4	29	-	3,403	3,432
Total	$ 1,134	$ 305	$ 1,439	$ 708	$ 611,738	$ 613,885

NOTE 5 - LOANS (CONTINUED)

The Bank categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank uses the following definitions for risk ratings:

- **Special Mention –** Loans classified special mention possess some credit deficiency or potential weakness that deserves close attention, but do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk of losses in the future.
- **Substandard –** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard have well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are categorized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful –** Loans classified as doubtful have all of the weaknesses of those classified as substandard. Additionally, however, these weaknesses make collection or liquidation in full based on existing conditions improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. The following presents loans as of December 31, 2019 and 2018 that are collectively evaluated for impairment and are not considered to be impaired (dollars in thousands):

2019	**Pass**	**Special mention**	**Sub-standard**	**Doubtful**	**Not rated**	**Total**
Commercial loans:						
Agricultural loans	$ 3,085	$ -	$ -	$ -	$ -	$ 3,085
Commercial loans	59,934	724	2,025	-	-	62,683
Overdraft LOC	-	-	-	-	320	320
Non-profit/political subdivisions	1,602	-	-	-	-	1,602
Residential real estate loans:						
Open-end home equity	25,489	655	150	-	-	26,294
1 – 4 family (1st mortgages)	88,825	1,255	780	-	-	90,860
1 – 4 family (Jr. mortgages)	848	-	-	-	-	848
Non-residential real estate loans:						
Multifamily	65,580	-	-	-	-	65,580
Farm	7,562	45	383	-	-	7,990
Non-farm	247,842	13,925	3,973	-	-	265,740
Construction real estate	23,369	-	-	-	-	23,369
Consumer loans:						
Vehicle	36,839	60	25	-	-	36,924
Overdraft LOC	-	-	-	-	160	160
Mobile home	2,226	13	6	-	-	2,245
Home improvement	68	-	-	-	-	68
Other	46,346	302	13	-	-	46,661
Credit card	-	-	-	-	3,390	3,390
Total	$ 609,615	$ 16,979	$ 7,355	$ -	$ 3,870	$ 637,819

NOTE 5 - LOANS (CONTINUED)

2018	Pass	Special mention	Sub-standard	Doubtful	Not rated	Total
Commercial loans:						
Agricultural loans	$ 3,153	$ -	$ 95	$ -	$ -	$ 3,248
Commercial loans	55,753	282	1,465	-	-	57,500
Overdraft LOC	-	-	-	-	739	739
Non-profit/political subdivisions	1,903	-	-	-	-	1,903
Residential real estate loans:						
Open-end home equity	25,747	411	356	-	-	26,514
1 – 4 family (1st mortgages)	90,505	1,719	2,019	-	-	94,243
1 – 4 family (Jr. mortgages)	1,350	-	-	-	-	1,350
Non-residential real estate loans:						
Multifamily	51,318	-	208	-	-	51,526
Farm	7,182	50	414	-	-	7,646
Non-farm	258,641	10,927	4,282	-	-	273,850
Construction real estate	14,321	-	-	-	-	14,321
Consumer loans:						
Vehicle	32,114	99	40	-	-	32,253
Overdraft LOC	-	-	-	-	193	193
Mobile home	2,399	-	9	-	-	2,408
Home improvement	198	-	-	-	-	198
Other	42,428	126	7	-	-	42,561
Credit card	-	-	-	-	3,432	3,432
Total	$ 587,012	$ 13,614	$ 8,895	$ -	$ 4,364	$ 613,885

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan clients of the Bank. Such loans are made in the ordinary course of business in accordance with the Bank's normal lending policies, including the interest rate charged and collateralization, and do not represent more than a normal collection risk. Such loans amounted to $8,770,000 and $353,000 at December 31, 2019 and 2018, respectively. The reason for the increase was the addition of two new directors.

The following is a summary of activity during 2019 and 2018 with loan renewals included in additions and repayments (dollars in thousands):

	Balance at beginning	Additions	Repayments	Balance at end
2019	$ 353	$8,629	$ 212	$ 8,770
2018	$ 438	$ 125	$ 210	$ 353

Deposits to officers, directors, and employees of the Bank approximated $6,289,000 as of December 31, 2019, and $6,670,000 at December 31, 2018.

NOTE 6 - ALLOWANCE FOR LOAN LOSSES

The following presents the balances and activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2019 and 2018 (dollars in thousands):

	Commercial	Residential real estate	Non-residential real estate	Construction real estate	Consumer	Credit card	Total
Balance at December 31, 2018	$ 482	$ 981	$ 3,016	$ 113	$ 887	$ 81	$ 5,560
Provision (credit) for loan losses	99	203	129	122	231	41	825
Losses charged off	-	(221)	-	-	(217)	(42)	(480)
Recoveries	-	42	-	-	16	3	61
Balance at December 31, 2019	$ 581	$ 1,005	$ 3,145	$ 235	$ 917	$ 83	$ 5,966
Balance at December 31, 2017	$ 594	$ 983	$ 2,821	$ 61	$ 676	$ 82	$ 5,217
Provision (credit) for loan losses	(91)	72	174	52	329	34	570
Losses charged off	(21)	(85)	-	-	(140)	(42)	(288)
Recoveries	-	11	21	-	22	7	61
Balance at December 31, 2018	$ 482	$ 981	$ 3,016	$ 113	$ 887	$ 81	$ 5,560

NOTE 7 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Land and improvements	$ 2,742	$ 2,867
Buildings	15,035	14,365
Equipment	11,325	10,733
	29,102	27,965
Less accumulated depreciation	18,789	17,863
Premises and equipment, net	$ 10,313	$10,102

Depreciation of premises and equipment amounted to $926,000 in 2019 and $822,000 in 2018.

NOTE 8 - SECONDARY MARKET LENDING

As part of its normal business activity, the Bank services loans for others, including substantially all qualifying fixed rate residential mortgage loans which it originates and sells in the secondary market with servicing retained. Serviced loans are not reported as assets of the Bank and amounted to $183,501,000 and $180,783,000 as of December 31, 2019 and 2018, respectively.

Loans sold in the secondary market amounted to $23,483,000 and $21,993,000 during the years ended December 31, 2019 and 2018, respectively, resulting in gain on sale of loans of $766,000 in 2019 and $667,000 in 2018.

The following is a summary of activity for capitalized mortgage servicing rights for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019	**2018**
Balance at beginning of year	$ 840	$ 977
Capitalized servicing rights	258	199
Amortized to expense	(347)	(336)
Balance at end of year	$ 751	$ 840

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets.

NOTE 9 - DEPOSITS

Time deposits at December 31, 2019 that included individual deposits of $250,000 and over amounted to $13,841,000 and $15,934,000 at December 31, 2018.

At December 31, 2019, the scheduled maturities of time deposits were as follows (dollars in thousands):

2020	$ 45,481
2021	29,485
2022	19,411
2023	9,858
2024	13,458
Thereafter	1,847
Total	$ 119,540

NOTE 10 - BORROWED FUNDS

Borrowed funds consisted of the following at December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Federal Home Loan Bank (FHLB):		
Secured note, with interest at 2.47%, due January 2019	$ -	$ 8,000
Secured note, with interest at 2.46%, due January 2019	-	9,000
Secured note, with interest at 1.87%, due February 2021	109	222
Secured note, with interest at 2.49%, due May 2024	5,000	-
Secured note, with interest at 2.42%, due May 2024	7,500	-
Secured note, with interest at 2.19%, due June 2024	5,000	-
	$17,609	$17,222

Future maturities of borrowed funds at December 31, 2019 were as follows (dollars in thousands):

2020	$ 102
2021	7
2022	-
2023	-
2024	17,500
Total	$ 17,609

The FHLB notes require monthly interest payments and are secured by stock in the FHLB of Cincinnati and eligible mortgage loans totaling $211,480,000 at December 31, 2019.

At December 31, 2019, the Bank has available borrowings of $35,067,000 under its line of credit with the Federal Home Loan Bank.

NOTE 11 - FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements at both December 31, 2019 and December 31, 2018 totaled $42,808,000 and $36,455,000. The weighted average interest rate was .50% and .82% for securities sold under repurchase agreements outstanding as of December 31, 2019 and 2018, respectively. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

As of December 31, 2019, the Bank has $10,000,000 of short-term borrowing availability through a federal funds line of credit with a correspondent bank. As of December 31, 2019, there were no federal funds purchased, and $518,000 borrowed at December 31, 2018.

NOTE 12 - NON-INTEREST EXPENSES

The following is a summary of non-interest expenses for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Salaries, wages, and employee benefits	$ 15,007	$ 14,279
Occupancy of premises	1,163	1,117
Amortization of core deposit intangible assets	426	529
FDIC premium assessments	113	246
Equipment and vehicle	1,948	1,742
Professional and examination	748	763
State franchise and other taxes	935	886
Postage, stationery, and supplies	573	588
Advertising and marketing	577	584
Third-party computer processing	162	148
MasterCard franchise and processing	264	274
Loan collection and repossession fees	162	102
ATM network and processing fees	497	405
Other	2,098	1,846
Total non-interest expenses	$ 24,673	$ 23,509

NOTE 13 - FEDERAL INCOME TAXES

The provision for federal income taxes consisted of the following for 2019 and 2018 (dollars in thousands):

	2019	2018
Current	$ 2,442	$ 2,058
Deferred	46	100
Total	$ 2,488	$ 2,158

The income tax provision attributable to income from operations differs from the amounts computed by applying the U.S. federal income tax rate to income before federal income taxes as a result of the following (dollars in thousands):

	2019	2018
Expected tax using statutory tax rate of 21% for 2019 and 2018	$ 3,152	$ 2,974
Increase (decrease) in tax resulting from:		
Tax-exempt income on state and municipal securities and political subdivision loans	(490)	(605)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	16	12
Increase in cash value of life insurance policies	(62)	(59)
Tax-exempt income earned by Croghan Risk Management	(157)	(149)
Other, net	29	(15)
Total	$ 2,488	$ 2,158

The deferred federal income tax provision of $46,000 in 2019 and $100,000 in 2018 resulted from the tax effects of temporary differences.

NOTE 13 - FEDERAL INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of deferred tax liabilities and deferred tax assets at December 31, 2019 and 2018 are presented below (dollars in thousands):

	2019	2018
Deferred tax assets:		
Purchase accounting basis difference	$ 359	$ 482
Allowance for loan losses	1,253	1,168
Unrealized loss on securities available-for-sale	-	124
Accrued expenses and other	353	345
Total deferred tax assets	1,965	2,119
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	304	-
Purchase accounting basis difference	759	805
Depreciation of premises and equipment	249	227
Federal Home Loan Bank stock dividends	354	354
Mortgage servicing rights	158	177
Prepaid expenses	148	178
Deferred loan costs and other	286	289
Total deferred tax liabilities	2,258	2,030
Net deferred tax assets (liabilities)	$ (293)	$ 89

Net deferred tax liabilities at December 31, 2019 and December 31, 2018 are included in other liabilities in the accompanying consolidated balance sheets.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2019 and 2018.

In management's determination, the Corporation has no tax positions for which it deems reasonably possible that the total amounts of the unrecognized tax benefit will significantly increase or decrease within the 12 months subsequent to December 31, 2019. The tax years that remain open and subject to examination as of December 31, 2019 are years 2016 – 2019 for Federal and the State of Ohio.

NOTE 14 - EMPLOYEE BENEFITS

The Bank sponsors The Croghan Colonial Bank 401(k) Profit Sharing Plan (The Plan), a defined contribution plan which provides for both profit sharing and employer matching contributions. The Plan permits the investing in the Corporation's stock subject to various limitations. The Bank's profit sharing and matching contributions to the 401(k) profit sharing plan for the years ended December 31, 2019 and 2018 amounted to $744,000 and $701,000, respectively. As of December 31, 2019, the Plan held 16,207 shares of the Corporation's common stock.

The Bank has entered into various supplemental pre and post-retirement benefits with certain officers and employees of the Bank. These benefits and cost related to these benefits are supplemented by income and death benefits from insurance policies owned by the Bank. All life insurance policies required the payment of single premiums. The cash value of the life insurance policies amounted to $18,171,000 and $17,873,000 at December 31, 2019 and 2018, respectively.

In connection with the agreements, the Bank provided an estimated liability for accumulated pre and post-retirement benefits of $495,000 at December 31, 2019 and $490,000 at December 31, 2018, which is included in other liabilities in the accompanying consolidated balance sheets. The Bank recognized a credit for deferred compensation of $5,000 in 2019 and a credit of $2,000 in 2018.

No other post-retirement or post-employment benefits are offered to retirees or employees.

NOTE 15 - STOCK-BASED COMPENSATION

The Corporation established in 2002 a Stock Option and Incentive Plan (the "2002 Plan") which permitted the awarding of stock options and/or stock appreciation rights to directors, managerial and other key employees of the Bank. The 2002 Plan, which provided for the issuance of up to 190,951 shares, expired in March 2012.

At the 2012 Annual Meeting of Shareholders, the shareholders of the Corporation adopted the Croghan Bancshares, Inc. 2012 Equity Incentive Plan (the "2012 Plan"), which permits the Corporation to award stock options, stock appreciation rights, restricted stock, and other stock-based and performance-based awards to directors, employees, and other eligible participants. A total of 162,082 shares are available for issuance pursuant to the 2012 Plan.

Following is a summary of activity for stock options for the years ended December 31, 2019 and 2018:

	2019	2018
Outstanding, beginning of year	5,311	8,936
Granted	-	-
Exercised	(3,250)	(3,625)
Forfeited	-	-
Outstanding, end of year	2,061	5,311

At December 31, 2019, 2,061 options with a per share exercisable price of $24.99 were fully vested and exercisable with a weighted average remaining contractual term of four years. The intrinsic value of outstanding options as of December 31, 2019 was $59,000.

No compensation expense related to the options was recognized in 2019 or 2018 and no unamortized compensation expense remains.

Restricted stock awards may also be issued under the 2012 Plan. The Corporation granted 2,640 shares of restricted stock in 2019. A summary of restricted stock activity for 2019 and 2018 activity is as follows:

	2019		2018	
	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value
Nonvested at beginning of year	8,208	$45.21	7,640	$39.18
Granted	2,640	52.00	3,120	53.68
Vested	(3,838)	45.35	(2,552)	37.51
Forfeited	(1,092)	43.75	-	-
Nonvested at end of year	5,918	$49.64	8,208	$45.21

Restricted stock awards vest over a four or five year period. Compensation expense relating to restricted stock is recognized over the vesting period based on the market value of the shares on the issue date and amounted to $163,000 in 2019 and $117,000 in 2018. As of December 31, 2019, there was $237,000 of total unrecognized compensation cost related to unvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 2.26 years.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments are primarily loan commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amount of these instruments reflects the extent of involvement the Bank has in these financial instruments.

The Corporation's exposure to credit loss in the event of the nonperformance by the other party to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of these instruments. The Corporation uses the same credit policies in making loan commitments as it does for on-balance sheet loans.

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2019 and 2018 (dollars in thousands):

	Contract amount	
	2019	**2018**
Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit	$ 146,507	$ 132,596
Standby letters of credit	$ 23	$ 434

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the client. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. All outstanding standby letters of credit at December 31, 2019 expire in 2020. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The Bank requires collateral supporting these commitments when deemed necessary.

Various legal claims also arise from time to time in the normal course of business, which in the opinion of management, will have no material effect in the corporation's consolidated financial statements.

NOTE 17 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank'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 their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Common Equity Tier 1, Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2019 and 2018, that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2019, the most recent notification from federal and state banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 17 - REGULATORY MATTERS (CONTINUED)

The actual capital amounts and ratios of the Bank as of December 31, 2019 and 2018 are presented as follows (dollars in thousands):

These tables do not include the 2.5% capital conservation buffer requirement. A Bank with a capital conservation buffer greater than 2.5% of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5% threshold is not met, the Bank would be subject to increasing limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019						
Total Capital (to Risk-Weighted Assets)						
Bank	$103,028	13.3%	$61,856	≥ 8.0%	$ 77,320	≥ 10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Bank	97,062	12.6%	34,794	≥ 4.5%	50,258	≥ 6.5%
Tier I Capital (to Risk-Weighted Assets)						
Bank	97,062	12.6%	46,392	≥ 6.0%	61,856	≥ 8.0%
Tier I Capital (to Average Assets)						
Bank	97,062	11.4%	33,998	≥ 4.0%	42,497	≥ 5.0%
As of December 31, 2018						
Total Capital (to Risk-Weighted Assets)						
Bank	$95,129	13.1%	$58,196	≥ 8.0%	$ 72,745	≥ 10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Bank	89,569	12.3%	32,735	≥ 4.5%	47,285	≥ 6.5%
Tier I Capital (to Risk-Weighted Assets)						
Bank	89,569	12.3%	43,647	≥ 6.0%	58,196	≥ 8.0%
Tier I Capital (to Average Assets)						
Bank	89,569	11.2%	32,072	≥ 4.0%	40,091	≥ 5.0%

On a parent company only basis, the Corporation's primary source of funds are dividends paid by the Bank. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations, and to prudent and sound banking principles. Generally, subject to certain minimum capital requirements, the Bank may declare a dividend without the approval of the State of Ohio Division of Financial Institutions, unless the total dividends in a calendar year exceed the total of its net profits for the year combined with its retained profits of the two preceding years.

The Board of Governors of the Federal Reserve System generally considers it to be an unsafe and unsound banking practice for a bank holding company to pay dividends except out of current operating income, although other factors such as overall capital adequacy and projected income may also be relevant in determining whether dividends should be paid.

NOTE 18 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the parent company as of December 31, 2019 and 2018 and for each of the two years in the period ended December 31, 2019 was as follows (dollars in thousands):

CONDENSED BALANCE SHEETS	**2019**	**2018**
Assets:		
Cash	$ 235	$ 469
Dividends receivable from subsidiary	1,105	1,026
Investment in subsidiaries	122,912	114,114
Available-for-sale security	350	350
Other asset	54	37
Total assets	$124,656	$115,996
Liabilities:		
Dividends payable	1,105	1,026
Total liabilities	1,105	1,026
Stockholders' equity:		
Common stock	31,328	31,328
Surplus	13,132	13,070
Retained earnings	87,363	79,104
Accumulated other comprehensive income (loss)	1,143	(466)
Treasury stock	(9,415)	(8,066)
Total stockholders' equity	123,551	114,970
Total liabilities and stockholders' equity	$124,656	$115,996

CONDENSED STATEMENTS OF INCOME	**2019**	**2018**
Income – dividends from subsidiaries	$ 5,495	$ 4,834
Professional fees, interest, and other expenses	(196)	(147)
Income before income taxes and equity in undistributed net income of subsidiary	5,299	4,687
Federal income tax benefit	(34)	(26)
Income before equity in undistributed net income of subsidiary	5,333	4,713
Equity in net income of subsidiary, less dividends	7,189	7,289
Net income	$12,522	$12,002

NOTE 18 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS	**2019**	**2018**
Cash flows from operating activities:		
Net income	$12,522	$12,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income of subsidiary, less dividends	(7,189)	(7,289)
Increase in dividends receivable	(79)	(158)
Stock-based compensation expense	163	117
(Increase) decrease in other assets	(17)	46
Net cash provided by operating activities	5,400	4,718
Cash flows from financing activities:		
Cash dividends paid	(4,184)	(3,632)
Exercising of stock options	81	91
Treasury shares purchased	(1,531)	(708)
Net cash used in financing activities	(5,634)	(4,249)
Net (decrease) increase in cash	(234)	469
Cash at beginning of year	469	-
Cash at end of year	$ 235	$ 469

The Board of Directors authorized a stock buyback plan commencing February 1, 2019 and ending August 1, 2019, which allows up to 68,367 outstanding common shares to be repurchased. During the period February 1, 2019 through August 1, 2019, 10,991 shares were repurchased. The Board of Directors extended the stock buyback plan commencing on August 1, 2019 and ending on February 1, 2020, which allows up to 68,182 outstanding common shares to be repurchased. During the period August 1, 2019 through December 31, 2019, 17,405 shares were repurchased.

The Board of Directors extended the stock buyback plan commencing February 1, 2020 and ending August 1, 2020, which allows up to 67,659 outstanding common shares to be repurchased.

The decision whether to purchase shares, the number of shares to be purchased, and the price to be paid depends upon the availability of shares, prevailing market prices, and other possible considerations which might affect the advisability of purchasing shares.

NOTE 19 - FAIR VALUE MEASUREMENTS

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, and both able and willing to transact.

Nonfinancial assets and liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Nonfinancial assets measured at fair value on a nonrecurring basis include nonfinancial assets and liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other nonfinancial long-lived assets measured at fair value for impairment assessment, such as other real estate owned.

ASC 820-10 requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820-10 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Corporation's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Corporation's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy due to the lack of observable quotes in inactive markets for those instruments at December 31, 2019 and 2018.

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
2019				
Recurring:				
Securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ -	$ 69,742	$ -	$ 69,742
Obligations of states and political subdivisions	-	90,111	-	90,111
Other	-	350	-	350
Total	$ -	$ 160,203	$ -	$ 160,203
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 146	$ 146
Impaired loans	-	-	4,148	4,148
Total	$ -	$ -	$ 4,294	$ 4,294

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
2018				
Recurring:				
Securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ -	$ 63,700	$ -	$ 63,700
Obligations of states and political subdivisions	-	90,184	-	90,184
Other	-	350	-	350
Total	$ -	$ 154,234	$ -	$ 154,234
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 170	$ 170
Impaired loans	-	-	3,734	3,734
Total	$ -	$ -	$ 3,904	$ 3,904

There were no transfers of financial instruments between Levels 1 and 2 during 2019 and 2018.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, follows.

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 1 or Level 3 at December 31, 2019 and 2018.

The Corporation had investments in equity securities without a readily determinable fair value with a carrying amounts of $350,000 as of December 31, 2019 and 2018, respectively. No changes have been made to the carrying value of these investments as a result of observable price changes.

Impaired Loans

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria including discounting of appraisals based on age or changes in property or market conditions. These discounts generally range from 10% to 55%. Collateral values are also discounted for estimated selling costs of 10%. Estimated cash flows are discounted considering the loan rate and current market rates and generally range from 5% to 11%. Due to the significance of the Level 3 inputs, impaired loans fair values have been classified as Level 3.

Other Real Estate Owned

The Corporation values other real estate owned at the estimated fair value of the underlying collateral less expected selling costs, generally approximating 10%. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3.

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of recognized financial instruments at December 31, 2019 and 2018, as well as indication of where the instrument falls within the fair value hierarchy described in Note 19, are as follows (dollars in thousands):

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS				
Cash and cash equivalents	$ 20,617	$ 20,617	$ 20,537	$ 20,537
Securities	166,077	166,077	160,108	160,108
Loans, net	631,853	627,085	608,325	604,048
Total	$ 818,547	$ 813,779	$ 788,970	$ 784,693
FINANCIAL LIABILITIES				
Deposits	$ 686,847	$ 686,386	$ 672,973	$ 670,173
Federal funds purchased and securities sold under repurchase agreements	42,808	42,808	36,973	36,973
Borrowed funds	17,609	17,927	17,222	17,221
Total	$ 747,264	$ 747,121	$ 727,168	$ 724,367

The preceding summary does not include accrued interest receivable, cash surrender value of life insurance, dividends payable, and other liabilities which are also considered financial instruments. The estimated fair value of such items is considered to be their carrying amount.

The Bank also has unrecognized financial instruments which relate to commitments to extend credit and standby letters of credit. The contract amount of such financial instruments was $146,530,000 at December 31, 2019 and $133,030,000 at December 31, 2018. The fair value of such instruments is not considered significant since they represent commitments at current interest rates.

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

Cash and Cash Equivalents

Fair value is determined to be the carrying amount for these items because they represent cash or mature in 90 days or less and do not represent unanticipated credit concerns.

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities

The fair value of available-for-sale securities is determined based on quoted market prices of the individual securities or, if not available, estimated fair value was obtained by comparison to other known securities with similar risk and maturity characteristics. Such value does not consider possible tax ramifications or estimated transaction costs. The fair value of restricted stock is considered to be its carrying amount.

Loans

Fair value for loans is estimated for portfolios of loans with similar financial characteristics. The Corporation adopted the amendments to ASU 2016-01 relating to the loan portfolio in the year ended December 31, 2018 and an exit price income approach is now used to determine the fair value. Consideration is given to the loans underlying characteristics, including account types, remaining terms, annual interest rates or coupons, interest types, past delinquencies, timing of principal and interest payments, current market rates, loss exposures, and remaining balances. The model utilizes a discounted cash flow approach to estimate the fair value of the loans using assumptions for the coupon rates, remaining maturities, prepayment speeds, and estimates of prevailing discount rates. The model estimates credit losses based on historical charge-off trends. The model applies various assumptions regarding credit, interest, and prepayment risks for the loans based on loan types, payment types and fixed or variable classifications.

Deposits

The fair value of core deposits, including demand deposits, savings accounts, and certain money market deposits, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates offered at year end for deposits of similar remaining maturities. The estimated fair value does not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the marketplace.

Other Financial Instruments and Borrowed Funds

Federal funds purchased and securities sold under repurchase agreements are considered to be short-term borrowings and are valued at carrying value. Borrowed funds are typically long-term in nature with fair value determined based on discounted cash flow analysis using current interest rates.

The fair value estimates of financial instruments are made at a specific point in time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

NOTE 21 - COMMITMENTS AND CONTINGENCIES

The Bank has entered into multi-year agreements to lease certain of its facilities, as well as equipment under various short-term operating leases through June 2023. Rent expense under these agreements amounted to $51,000 in 2019 and $37,000 in 2018. Future minimum lease payments under long-term operating leases aggregate $24,000 at December 31, 2019, with the total amount expiring in 2020.

In the normal course of business, the Corporation and Bank may be involved in various legal actions, but in the opinion of management and its legal counsel, the ultimate disposition of such matters is not expected to have a material adverse effect on the consolidated financial statements.

LOCATIONS

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Fremont, OH 43420
419-355-2342

FREMONT NORTH
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Fremont, OH 43420
419-334-7188

FREMONT WEST
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Fremont, OH 43420
419-355-2352

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Clyde, OH 43410
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Curtice, OH 43412
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GREEN SPRINGS
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Green Springs, OH 44836
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419-794-9399

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Monroeville, OH 44847
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Oak Harbor, OH 43449
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Jim Faist

John Hoty

Claire Johansen

Dan Lease

Tom McLaughlin

Al Mehlow

Kendall Rieman

Rick Robertson

Gary Zimmerman

Sarah Zimmerman

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Dan Schloemer
Executive Vice President/Chief Lending Officer

Carrie Dickinson
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Monika Lovewell
Senior Vice President/Trust Officer

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Laura Whipple
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