

# CROGHAN

BANCSHARES, INC.



# 2023

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# Annual Report

TICKER SYMBOL: CHBH

# A MESSAGE FROM KENDALL RIEMAN, *President/CEO*



***In 2023, we were pleased to continue the financial support of all our local communities, while being able to maintain above-average financial metrics for our shareholders.***

One major initiative of our financial support is through the Croghan Cares Program. This program is driven by all 225 employees who are asked to identify a charitable program of their choice to support. The Croghan Cares donation is over and above any scheduled donation through our standard Charitable Contribution Program. Since its inception in 2020, Croghan Cares has donated over \$152,000 to these local groups and organizations and this does not include the countless hours of time and talent our employees invest. As you can see, we are proud to support and be active in all the communities we serve.

When looking at the financial performance of Croghan in 2023, I am pleased with our performance given the hurdles we were presented with. Inflation and the Federal Reserve's (Fed) reaction to the higher inflation continued to weigh on our net interest income as the cost of funds far outpaced the increased yield on our assets. While rapidly increasing deposit costs reduced our net interest margin during 2023, we are hopeful that our depositors will be pleased that their savings are once again able to provide a meaningful amount of income. In addition to a drop in our margin, our earnings were negatively impacted by our decision to reposition our securities portfolio. This decision reduced pre-tax earnings by \$1,044,000. Over the next one to three years, we anticipate earning more on the new securities we purchased than the losses we incurred in 2023. Other areas that weighed on our net income were lower mortgage sale income, higher employer wages, and general inflation on most expense items. We did see positive trends in our Wealth department's fee income as we continue to benefit from attracting new clients and from a positive movement in the overall equity markets.

Looking to 2024, we are well positioned with capital to manage through not only scenarios being discussed in the US economy but also the many challenges happening in other areas throughout the world. We are also working to improve our technology so we can continue to provide products and services that our clients have come to expect from Croghan. There has been an evolution of many digital services over the last few years and we intend to provide the best services while remaining diligent in providing security for our clients.

I would like to make a special thank you to our outgoing board member, Michael Allen. Mike has announced that he will not seek reelection upon the expiration of his term in 2024. Mike has been an integral part of Croghan's board for over 21 years. His thoughtful contributions and business expertise provided to Croghan will be missed. We wish Mike the very best and thank him for his leadership in shaping Croghan over the last 21 years and helping prepare us for future success.

We are looking forward to what may come in 2024 and beyond. We believe we are well positioned to once again provide both outstanding services to our clients and meaningful returns to our shareholders. We continue to look forward to "Helping Good People Make Good Decisions" and producing the results that benefit our communities, employees, and shareholders. We hope to see you out and about in our communities, but if we do miss you, please find us on our Facebook or LinkedIn platforms.

A handwritten signature in blue ink that reads "Kendall Riemann". The signature is fluid and cursive, written in a professional style.

# CROGHAN BANCSHARES, INC.

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### **Investor Relations**

Croghan Bancshares, Inc.  
Amy LeJeune  
323 Croghan Street, Fremont, OH 43420  
P: 419-332-7301 | 888-276-4426 | croghan.com

### **Availability of More Information**

To obtain a free copy of the Corporation's Annual Report for the year ended December 31, 2023, or for other information, contact us by one of the methods noted above.

### **Annual Meeting**

The Annual Meeting of Shareholders:

WHEN: Tuesday, May 14, 2024  
1:00 pm Eastern Time

A live audio presentation of the Annual Meeting will be hosted from the Corporation's headquarters at 323 Croghan Street, Fremont, OH 43420. Please refer to the Proxy Statement for the 2024 Annual Meeting for additional details.

# CROGHAN BANCSHARES, INC.

## DESCRIPTION OF THE CORPORATION

Croghan Bancshares, Inc. ("Croghan"), an Ohio corporation, is a financial holding company incorporated in 1983 with approximately \$1,118,000,000 in total assets as of December 31, 2023. 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. The Croghan Risk Management Inc., a captive insurance company, incorporated in 2016 was dissolved in December 2023, and all income, expenses, and equity have been recognized into the corporation's consolidated financials.

The Bank offers a diverse range of commercial and retail banking services through its 19 banking centers located in Bellevue, Clyde, Curtice, Fremont, Green Springs, Monroeville, Norwalk, Maumee, Milan, Oak Harbor, Oregon, Port Clinton, and Tiffin, 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 (unaudited)

Croghan's common shares are quoted on the OTCQB under the symbol "CHBH." The following shows the range of high and low price quotations, as reported on the OTCQB, for Croghan's common shares for each quarterly period during 2023 and 2022. OTCQB quotations reflect inter-dealer prices, without mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	2023		2022	
	Low	High	Low	High
First Quarter	\$47.25	\$62.00	\$62.47	\$72.75
Second Quarter	47.00	57.00	59.80	68.00
Third Quarter	46.32	48.02	54.20	62.98
Fourth Quarter	45.00	53.00	53.67	61.97

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):

2023	Net income	Basic net income per share	Dividend per share
First quarter	\$ 3,097	\$ 1.44	\$ .57
Second quarter	2,881	1.34	.57
Third quarter	2,597	1.22	.57
Fourth quarter	<u>2,198</u>	<u>1.05</u>	<u>.57</u>
Total	<u>\$10,773</u>	<u>\$5.05</u>	<u>\$2.28</u>
2022	Net income	Basic net income per share	Dividend per share
First quarter	\$ 3,384	\$ 1.54	\$ .55
Second quarter	3,296	1.50	.55
Third quarter	3,769	1.73	.56
Fourth quarter	<u>3,565</u>	<u>1.64</u>	<u>.57</u>
Total	<u>\$14,014</u>	<u>\$6.41</u>	<u>\$2.23</u>

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 (unaudited)

Years ended December 31,  
**2023**      **2022**      **2021**  
(Dollars in thousands, except share data)

Statements of operations:			
Total interest income	\$47,529	\$39,797	\$39,818
Total interest expense	<u>11,427</u>	<u>2,129</u>	<u>1,784</u>
Net interest income	36,102	37,668	38,034
Provision for credit losses	<u>75</u>	<u>-</u>	<u>825</u>
Net interest income, after provision for credit losses	36,027	37,668	37,209
Total non-interest income	5,791	7,006	8,309
Total non-interest expenses	<u>28,801</u>	<u>27,681</u>	<u>26,988</u>
Income before federal income taxes	13,017	16,993	18,530
Federal income taxes	<u>2,244</u>	<u>2,979</u>	<u>3,298</u>
Net income	<u>\$10,773</u>	<u>\$14,014</u>	<u>\$15,232</u>
Per share of common stock:			
Net income - Basic	\$ 5.05	\$ 6.41	\$ 6.87
Net income - Diluted	5.05	6.41	6.87
Dividends	2.28	2.23	2.16
Book value	56.82	50.53	63.72
Tangible book value	<u>46.18</u>	<u>40.11</u>	<u>53.41</u>
Average shares of common stock outstanding	<u>2,133,533</u>	<u>2,184,959</u>	<u>2,218,188</u>
Year-end balances:			
Loans, net	\$ 704,140	\$ 690,773	\$ 634,120
Securities	301,999	336,291	364,604
Total assets	1,118,128	1,125,763	1,112,402
Deposits	887,202	908,898	908,687
Stockholders' equity	<u>119,657</u>	<u>109,070</u>	<u>140,056</u>
Selected ratios:			
Net yield on average interest-earning assets	3.37%	3.55%	3.77%
Return on average assets	.98	1.26	1.40
Return on average stockholders' equity	9.51	11.53	10.89
Net loan charge-offs as a percent of average outstanding net loans	.02	.01	.05
Allowance for credit and loan losses as a percent of year-end loans	1.24	1.24	1.36
Stockholders' equity as a percent of total year-end assets	10.70	9.69	12.59
Cash dividends declared as a percent of net income	45.00	34.68	31.41
Number of stockholders of record	936	972	979
Number of full-time equivalent employees	211	205	203

## Independent Auditor's Report

To the Board of Directors  
Croghan Bancshares, Inc.

### **Opinion**

We have audited the consolidated financial statements of Croghan Bancshares, Inc. and its subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2023 and 2022 and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Croghan Bancshares, Inc.'s internal control over financial reporting as of December 31, 2023 based on criteria established in *Internal Control - Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) (the "COSO criteria"), and our report dated February 12, 2024 expressed an unmodified opinion.

### **Basis for Opinion**

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

### **Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, the Corporation has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Account Standards Codification 326, *Financial Instruments - Credit Losses*. The Corporation adopted the new credit loss standard using the modified retrospective method such that prior amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Consolidated Financial Statements**

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

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

To the Board of Directors  
Croghan Bancshares, Inc.

### ***Auditor's Responsibilities for the Audits of the Consolidated Financial Statements***

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

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

### ***Other Information Included in the Annual Report***

Management is responsible for the other information included in the annual financial report. The other information comprises the description of the Corporation and common share information and selected financial data but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Plante & Moran, PLLC*

February 12, 2024

# CROGHAN BANCSHARES, INC.

## CONSOLIDATED BALANCE SHEET

ASSETS	December 31, 2023                      2022	
	(Dollars in thousands, except per share data)	
CASH AND CASH EQUIVALENTS	\$ 37,358	\$ 21,020
SECURITIES		
Available-for-sale, at fair value	296,023	330,236
Restricted stock	<u>5,976</u>	<u>6,055</u>
Total securities	<u>301,999</u>	<u>336,291</u>
LOANS	713,009	699,459
Less: Allowance for credit and loan losses	<u>8,869</u>	<u>8,686</u>
Net loans	<u>704,140</u>	<u>690,773</u>
PREMISES AND EQUIPMENT, NET	10,439	10,123
CASH SURRENDER VALUE OF LIFE INSURANCE	26,328	26,561
GOODWILL	22,416	22,416
CORE DEPOSIT INTANGIBLE ASSETS, NET	-	80
ACCRUED INTEREST RECEIVABLE	4,586	4,312
OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS	-	61
OTHER ASSETS	<u>10,862</u>	<u>14,126</u>
<b>TOTAL ASSETS</b>	<b><u>\$1,118,128</u></b>	<b><u>\$1,125,763</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
LIABILITIES		
Deposits:		
Demand, non-interest bearing	\$279,215	\$333,077
Savings, NOW, and Money Market deposits	446,131	479,365
Time	<u>161,856</u>	<u>96,456</u>
Total deposits	887,202	908,898
Federal funds purchased and securities sold under repurchase agreements	46,529	40,246
Borrowed funds	58,500	60,500
Dividends payable	1,200	1,230
Other liabilities	<u>5,040</u>	<u>5,819</u>
Total liabilities	<u>998,471</u>	<u>1,016,693</u>
STOCKHOLDERS' EQUITY		
Common stock, \$12.50 par value. Authorized 6,000,000 shares; issued 2,506,208 shares at December 31, 2023 and 2022	31,328	31,328
Surplus	13,185	13,126
Retained earnings	121,718	116,205
Accumulated other comprehensive income (loss)	(28,479)	(36,209)
Treasury stock, 400,456 and 347,595 shares at December 31, 2023 and 2022, at cost	<u>(18,095)</u>	<u>(15,380)</u>
Total stockholders' equity	<u>119,657</u>	<u>109,070</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$1,118,128</u></b>	<b><u>\$1,125,763</u></b>

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

# CROGHAN BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2023	2022
	(Dollars in thousands, except per share data)	
<b>INTEREST INCOME</b>		
Loans, including fees	\$ 36,829	\$ 31,687
Securities:		
Taxable	9,250	6,498
Non-taxable	957	1,544
Other interest income	<u>493</u>	<u>68</u>
Total interest income	<u>47,529</u>	<u>39,797</u>
<b>INTEREST EXPENSE</b>		
Deposits	8,469	1,258
Other borrowings	<u>2,958</u>	<u>871</u>
Total interest expense	<u>11,427</u>	<u>2,129</u>
Net interest income	36,102	37,668
<b>PROVISION FOR CREDIT LOSSES</b>		
Net interest income, after provision for credit losses	<u>75</u>	<u>-</u>
	<u>36,027</u>	<u>37,668</u>
<b>NON-INTEREST INCOME</b>		
Trust income	2,308	2,266
Service charges on deposit accounts	2,086	2,054
Gain on sale of loans	476	799
Gain (loss) on sale of securities	(1,044)	(32)
Other	<u>1,965</u>	<u>1,919</u>
Total non-interest income	<u>5,791</u>	<u>7,006</u>
<b>NON-INTEREST EXPENSES</b>		
Salaries, wages, and employee benefits	17,606	16,513
Occupancy of premises	1,364	1,353
Amortization of core deposit intangible assets	80	160
Other	<u>9,751</u>	<u>9,655</u>
Total non-interest expenses	<u>28,801</u>	<u>27,681</u>
Income before federal income taxes	13,017	16,993
<b>FEDERAL INCOME TAXES</b>		
	<u>2,244</u>	<u>2,979</u>
<b>NET INCOME</b>	<u>\$10,773</u>	<u>\$14,014</u>
<b>NET INCOME PER SHARE</b>		
Basic	<u>\$ 5.05</u>	<u>\$ 6.41</u>
Diluted	<u>\$ 5.05</u>	<u>\$ 6.41</u>

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

# CROGHAN BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,	
	2023	2022
	(Dollars in thousands)	
NET INCOME	<u>\$10,773</u>	<u>\$14,014</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on available-for-sale securities	8,741	(47,712)
Reclassification adjustments for securities (gain) loss included in income	<u>1,044</u>	<u>32</u>
Net unrealized gain (loss)	<u>9,785</u>	<u>(47,680)</u>
Income tax effect	<u>2,055</u>	<u>(10,013)</u>
Other comprehensive income (loss)	<u>7,730</u>	<u>(37,667)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$18,503</u>	<u>\$(23,653)</u>

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

# CROGHAN BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Year ended December 31, 2023 and 2022

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
(Dollars in thousands, except per share data)						
<b>BALANCE AT DECEMBER 31, 2021</b>	<b><u>\$ 31,328</u></b>	<b><u>\$13,074</u></b>	<b><u>\$107,051</u></b>	<b><u>\$1,458</u></b>	<b><u>\$(12,855)</u></b>	<b><u>\$140,056</u></b>
Net income	-	-	14,014	-	-	14,014
Issuance of restricted stock	-	(136)	-	-	136	-
Other comprehensive income (loss)	-	-	-	(37,667)	-	(37,667)
Stock-based compensation expense	-	188	-	-	-	188
Purchase of treasury stock	-	-	-	-	(2,661)	(2,661)
Cash dividends declared, \$2.23 per share	-	-	(4,860)	-	-	(4,860)
<b>BALANCE AT DECEMBER 31, 2022</b>	<b><u>\$31,328</u></b>	<b><u>\$13,126</u></b>	<b><u>\$116,205</u></b>	<b><u>\$(36,209)</u></b>	<b><u>\$(15,380)</u></b>	<b><u>\$ 109,070</u></b>
Adoption of ASU 2016-13 CECL	-	-	(412)	-	-	(412)
Net income	-	-	10,773	-	-	10,773
Forfeiture of restricted stock	-	9	-	-	(9)	-
Issuance of restricted stock	-	(200)	-	-	200	-
Other comprehensive income (loss)	-	-	-	7,730	-	7,730
Stock-based compensation expense	-	250	-	-	-	250
Purchase of treasury stock	-	-	-	-	(2,906)	(2,906)
Cash dividends declared, \$2.28 per share	-	-	(4,848)	-	-	(4,848)
<b>BALANCE AT DECEMBER 31, 2023</b>	<b><u>\$31,328</u></b>	<b><u>\$13,185</u></b>	<b><u>\$121,718</u></b>	<b><u>\$(28,479)</u></b>	<b><u>\$(18,095)</u></b>	<b><u>\$119,657</u></b>

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

# CROGHAN BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2023	2022
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 10,773	\$14,014
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	1,056	1,067
Loan discount accretion	(106)	(211)
Core deposit intangible amortization	80	160
Provision for credit losses and loan losses	75	-
Deferred federal income taxes	(386)	261
Net gain on sale of loans	(476)	(799)
Net (gain) loss on sale or write-down of other real estate owned	(12)	1
Increase in cash value of life insurance	(399)	(423)
Net amortization of security premiums and discounts	2,199	2,978
Stock-based compensation expense	250	188
Loss on sale of securities	1,044	32
Proceeds from sale of loans, net of originations	276	502
Change in accrued interest receivable	(274)	(707)
Change in other assets	1,014	673
Change in other liabilities	<u>(393)</u>	<u>110</u>
Net cash and cash equivalents provided by operating activities	<u>14,721</u>	<u>17,846</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of securities	16,570	30,914
Proceeds from sales of available-for-sale securities	40,370	9,740
Purchases of available-for-sale securities	(16,103)	(62,737)
Proceeds (purchases) of restricted stock	79	(181)
Proceeds from sale of other real estate owned	73	51
Proceeds from bank owned life insurance	632	-
Net change in loans	(13,548)	(56,206)
Proceeds from disposal of fixed assets	-	3
Additions to premises and equipment	<u>(1,259)</u>	<u>(666)</u>
Net cash and cash equivalents provided by (used in) investing activities	<u>26,814</u>	<u>(79,082)</u>

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

# CROGHAN BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended December 31,	
	2023	2022
	(Dollars in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	\$(21,696)	\$ 211
Net change in federal funds purchased and securities sold under repurchase agreements	6,283	744
Repayments of borrowed funds	(43,000)	-
Proceeds from borrowed funds	41,000	43,000
Dividends paid	(4,878)	(4,839)
Purchase of treasury shares	<u>(2,906)</u>	<u>(2,661)</u>
Net cash and cash equivalents (used in) provided by financing activities	<u>(25,197)</u>	<u>36,455</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	16,338	(24,781)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>21,020</u>	<u>45,801</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 37,358</u>	<u>\$ 21,020</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	<u>\$ 10,524</u>	<u>\$ 2,005</u>
Federal income taxes	<u>\$ 2,875</u>	<u>\$ 2,420</u>
Non-cash transactions:		
Transfer of loans to other real estate owned	<u>\$ -</u>	<u>\$ 61</u>

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

# CROGHAN BANCSHARES, INC.

## NOTES TO 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 one wholly-owned subsidiary, The Croghan Colonial Bank (the "Bank"). The Corporation dissolved its other subsidiary Croghan Risk Management, Inc (the "Captive") in 2023. The Corporation, through its subsidiary, 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, Maumee, Milan, Monroeville, Norwalk, Oak Harbor, Oregon, Port Clinton, and Tiffin Ohio. The Bank's primary source of revenue is providing loans to clients primarily located in Cuyahoga, Erie, 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 that was dissolved in December of 2023. The Captive was 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, the assessment of goodwill for potential impairment, and the fair value of investment securities.

#### Principles of Consolidation

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

The Bank established a trust department in 1990. 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

As of March 26, 2020, the Federal Reserve Bank eliminated reserve requirements for certain depository institutions, including the Bank. As such, there was no reserve requirement at December 31, 2023 and December 31, 2022.

#### Securities

The Bank has designated all of its debt 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.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As of January 1, 2023, for available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Through December 31, 2022, 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.

Equity securities are reported at their fair value, with changes in market value flowing through net income.

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 are recognized when incurred. No impairment losses were recognized for 2023 and 2022.

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 credit and 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.

### **Allowance for Credit Losses**

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the weighted average remaining life method "WARM." The institution has segmented the categories into 14 different pools based on similar characteristic such as similar payment history, underwriting practices and collateral types. For this report and for presentation purposes, the loans in note five will be grouped into smaller sub categories as described below:

- Commercial
  - Commercial
  - Political Subdivision
  - Agriculture
- Construction
  - Construction Real Estate
- Residential Real Estate
  - 1-4 family first mortgage
  - 1-4 family second mortgage
  - Home Equity Lines of Credit
- Non-Residential Real Estate
  - Farm Real Estate
  - Multifamily Real Estate
  - Commercial Real Estate – Owner Occupied
  - Commercial Real Estate – Non-Owner Occupied
- Consumer
  - Auto Loans
  - Other Consumer Loans
- Credit Cards

The WARM method takes the weighted average remaining maturity and applies past loss data of the individual pools and applies it to the balances in the portfolio. The net charge off amounts are collected in the same above categories for application.

The CECL method also applies an economic correlation factor based on correlations of the Bank's net charge-off history to the unemployment history. This statistical correlation is then applied to the individual loan pools to give an economic factor.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date and adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans and adjusted for expected prepayments when appropriate. The contractual term, excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Credit card receivables do not have stated maturities. In determining the estimated life of a credit card receivable, management first estimates the future cash flows expected to be received and then applies those expected future cash flows to the credit card balance. Expected credit losses for credit cards are determined by estimating the amount and timing of principal payments expected to be received as payment for the balance outstanding as of the reporting period and applying those principal payments against the balance outstanding as of the reporting period until the expected payments have been fully allocated. The allowance for credit loss is recorded for the excess of the balance outstanding as of the reporting period over the expected principal payments.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Allowance for Credit Losses on Off Balance Sheet Credit Exposures**

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

The following categories of off-balance sheet credit exposures have been identified:

- Home Equity Lines of Credit
- Credit Cards
- 1-4 Family Construction
- Commercial Construction
- Commercial and Industrial
- Other

### **Premises and Equipment**

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is 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**

The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair value of assets acquired and liabilities assumed at the acquisition date. 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 is performed as of November 30, 2023. As a result of performing the analysis, no impairment charge was recognized during the years ended December 31, 2023 and 2022. 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, 2023.

Core deposit intangible assets arising from previous branch acquisitions are amortized over ten years using the sum of the year's digits amortization method. During 2023 the remaining amortization of core deposit intangible assets was amortized and totaled \$80,400, and no unamortized core deposit intangible remain.

### **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 credit 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.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 Corporation later determines all or a portion of impairment no longer exists for a particular reason, the valuation allowance is reversed into income.

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

### **Lessee Accounting**

Right of use assets and lease liabilities are recognized for all leases unless the lease term at inception is twelve months or less, as the Corporation has elected not to recognize a right of use asset or lease liability for leases with terms less than twelve months. Lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectation regarding the terms. Variable lease cost such as common area maintenance, property taxes, and insurance are expensed as incurred.

### **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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 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.

### 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, 2023 and 2022 follows:

	<b>2023</b>	<b>2022</b>
Basic	<u>2,133,533</u>	<u>2,184,959</u>
Diluted	<u>2,133,533</u>	<u>2,184,959</u>

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 12, 2024, which is the date the consolidated financial statements were available to be issued.

## NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2023 the Corporation adopted ASU 2016--13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, (net investments in leases) and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Corporation recorded a net decrease to retained earnings of \$412,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

## NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2023 and 2022 were as follows (dollars in thousands):

	<b>2023</b>	<b>2022</b>
Cash and due from banks	\$ 20,002	\$18,574
Interest-bearing deposits in other banks	<u>17,356</u>	<u>2,446</u>
Total	<u>\$ 37,358</u>	<u>\$ 21,020</u>

## NOTE 4 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2023 and 2022 were as follows (dollars in thousands):

	<b>2023</b>		<b>2022</b>	
	<b>Amortized cost</b>	<b>Fair value</b>	<b>Amortized cost</b>	<b>Fair value</b>
Available-for-sale:				
Collateralized mortgage obligations	\$102,567	\$ 93,377	\$105,535	\$94,990
Mortgage backed securities	50,531	47,361	46,061	42,180
SBA loan pools	3,694	3,702	5,145	5,169
U.S. Treasury	28,443	27,069	35,519	33,271
Obligations of states and political subdivisions	146,488	124,164	183,461	154,276
Other	<u>350</u>	<u>350</u>	<u>350</u>	<u>350</u>
Total available-for-sale	332,073	296,023	376,071	330,236
Restricted stock	<u>5,976</u>	<u>5,976</u>	<u>6,055</u>	<u>6,055</u>
Total	<u>\$338,049</u>	<u>\$301,999</u>	<u>\$382,126</u>	<u>\$336,291</u>

**NOTE 4 - SECURITIES (CONTINUED)**

A summary of gross unrealized gains and losses on securities at December 31, 2023 and 2022 follows (dollars in thousands):

	2023		2022	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Available-for-sale:				
Collateralized mortgage obligations	\$ 115	\$ 9,305	\$ 37	\$10,582
Mortgage backed securities	163	3,333	2	3,883
SBA loan pools	35	27	54	30
U.S. Treasury	-	1,374	-	2,248
Obligations of states and political subdivisions	<u>6</u>	<u>22,330</u>	<u>60</u>	<u>29,245</u>
Total available-for-sale	<u>\$ 319</u>	<u>\$36,369</u>	<u>\$ 153</u>	<u>\$45,988</u>

There was no allowance for credit losses recorded for the Corporation's available-for-sale-securities as of December 31, 2023.

The amortized cost and fair value of securities at December 31, 2023, 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).

	<u>Available-for-sale</u>	
	<u>Amortized cost</u>	<u>Fair value</u>
Due in one year or less	\$ 7,128	\$ 7,080
Due after one year through five years	78,928	74,240
Due after five years through ten years	192,633	172,538
Due after ten years	53,034	41,815
Other equity security having no stated maturity date	<u>350</u>	<u>350</u>
Total	<u>\$ 332,073</u>	<u>\$ 296,023</u>

Securities with a carrying value of \$227,231,000 at December 31, 2023 were pledged to secure public deposits and for other purposes as required or permitted by law. Included in the Bank's pledged securities are securities with a carrying value of \$63,765,000 at December 31, 2023 which 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 \$3,443,000 at December 31, 2023 and \$3,523,000 at December 31, 2022. The Bank's investment in Federal Reserve Bank of Cleveland stock amounted to \$2,337,000 at December 31, 2023 and December 31, 2022.

There were \$4,000 of gross gains realized from sales of securities available-for-sale in 2023 and none in 2022. Gross losses realized from sales of securities available-for-sale amounted to \$1,048,000 in 2023 and \$32,000 in 2022.

**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, 2023 and 2022 (dollars in thousands):

	<b>Securities in a continuous unrealized loss position</b>					
	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	<b>Fair value</b>
	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>
<b>2023</b>						
Collateralized mortgage obligations	\$ 25	\$ 4,937	\$ 9,280	\$ 79,646	\$ 9,305	\$ 84,583
Mortgage backed securities	-	-	3,333	39,901	3,333	39,901
SBA loan pools	2	860	25	1,632	27	2,492
U.S. Treasury	-	-	1,374	27,069	1,374	27,069
Obligations of states and political subdivisions	<u>24</u>	<u>1,570</u>	<u>22,306</u>	<u>119,497</u>	<u>22,330</u>	<u>121,067</u>
Total securities available-for-sale	<u>\$ 51</u>	<u>\$ 7,367</u>	<u>\$36,318</u>	<u>\$267,745</u>	<u>\$36,369</u>	<u>\$275,112</u>
<b>2022</b>						
Collateralized mortgage obligations	\$ 950	\$ 21,715	\$ 9,632	\$ 70,941	\$10,582	\$ 92,656
Mortgage backed securities	809	14,256	3,074	27,868	3,883	42,124
SBA loan pools	4	1,839	26	1,766	30	3,605
U.S. Treasury	1,022	21,879	1,226	11,392	2,248	33,271
Obligations of states and political subdivisions	<u>6,587</u>	<u>55,277</u>	<u>22,658</u>	<u>85,580</u>	<u>29,245</u>	<u>140,857</u>
Total securities available-for-sale	<u>\$ 9,372</u>	<u>\$114,966</u>	<u>\$36,616</u>	<u>\$197,547</u>	<u>\$45,988</u>	<u>\$312,513</u>

When evaluating these securities for potential credit losses or 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, 2023 and 2022 were primarily the result of the rapid increase of managed and market rates, as well as customary and expected fluctuations in the bond market related to changes in interest rates, and not the result of changes in the credit-worthiness of the issuer. 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, 2023 and 2022 are considered temporary and no allowance for credit losses was recorded as of December 31, 2023.

## NOTE 5 - ALLOWANCE FOR CREDIT LOSSES

The following presents the balances and activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2023 and 2022 (dollars in thousands) which also reflects the CECL one-time adjustment. The categories below are a formed from the sub categories that are detailed in the allowance for credit loss methodology description:

	Commercial	Residential real estate	Non- residential real estate	Construction real estate	Consumer	Credit card	Total
Balance at December 31, 2022	<u>\$1,134</u>	<u>\$ 1,094</u>	<u>\$ 4,174</u>	<u>\$ 426</u>	<u>\$1,772</u>	<u>\$ 86</u>	<u>\$8,686</u>
Prior to adoption of ASC 326							
Impact of adopting ASC 326	123	69	14	(57)	104	(6)	247
Provision (credit) for credit losses	(335)	167	447	(33)	(183)	12	75
Losses charged off	(79)	(8)	-	-	(78)	(15)	(180)
Recoveries	-	23	-	-	14	4	41
Balance at December 31, 2023	<u>\$ 843</u>	<u>\$ 1,345</u>	<u>\$ 4,635</u>	<u>\$ 336</u>	<u>\$1,629</u>	<u>\$ 81</u>	<u>\$8,869</u>
Balance at December 31, 2021	<u>\$1,095</u>	<u>\$ 1,047</u>	<u>\$ 4,569</u>	<u>\$ 521</u>	<u>\$1,458</u>	<u>\$ 79</u>	<u>8,769</u>
Provision (credit) for loan losses	100	39	(395)	(95)	303	48	-
Losses charged off	(61)	(20)	-	-	(19)	(62)	(162)
Recoveries	-	28	-	-	30	21	79
Balance at December 31, 2022	<u>\$1,134</u>	<u>\$ 1,094</u>	<u>\$ 4,174</u>	<u>\$ 426</u>	<u>\$1,772</u>	<u>\$ 86</u>	<u>\$8,686</u>

## NOTE 6 - LOANS

Most of the Bank's lending activity is with clients primarily located within Cuyahoga, Erie, 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, 2023 and 2022, follows (dollars in thousands):

Category	Year ended December 31	
	2023	2022
Residential and Investment Properties	\$133,302	\$126,021
Nonresidential Investment Properties	158,108	140,752
Accommodation and Food Service	86,134	68,736
Manufacturing	*	36,548
Other Services	42,187	41,087

\* Not applicable – below 25% threshold

- The residential and investment property concentration includes loans to residential and apartment buildings. These loans are generally secured by real property. Repayment is expected from personal cash flow or from providing such services.
- The non-residential investment property concentration includes loans on office buildings, strip centers, or other industrial buildings. These loans are generally secured by real property. Repayment is expected from rent or cash flow from operations in such services.
- The accommodation and food service industry concentration include 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.

## NOTE 6 - LOANS (CONTINUED)

- 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 other services concentration includes loans to car washes, funeral homes, churches, clubs, laundry and dry-cleaning services, and general automotive repair. These loans are generally secured by real property and equipment. Repayment is expected from cash flows generated from these operations

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 all the 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.

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 larger dollar 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.

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 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.

**NOTE 6 - 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, 2022 (dollars in thousands):

	<u>Real Estate</u>					Credit card	Total
	Commercial	Residential	Non- residential	Construction	Consumer		
<b>2022</b>							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ 16	\$ 14	\$ -	\$ -	\$ -	\$ 30
Collectively evaluated for impairment	<u>1,134</u>	<u>1,078</u>	<u>4,160</u>	<u>426</u>	<u>1,772</u>	<u>86</u>	<u>8,656</u>
<b>Total</b>	<b><u>\$ 1,134</u></b>	<b><u>\$ 1,094</u></b>	<b><u>\$ 4,174</u></b>	<b><u>\$ 426</u></b>	<b><u>\$ 1,772</u></b>	<b><u>\$ 86</u></b>	<b><u>\$ 8,686</u></b>
Loans:							
Loans individually evaluated for impairment	\$ 179	\$ 1,300	\$ 207	\$ -	\$ 3	\$ -	\$ 1,689
Loans acquired with deteriorated credit quality	-	252	170	-	-	-	422
Loans collectively evaluated for impairment	<u>78,078</u>	<u>101,723</u>	<u>350,896</u>	<u>43,475</u>	<u>120,314</u>	<u>2,862</u>	<u>697,348</u>
<b>Total</b>	<b><u>\$ 78,257</u></b>	<b><u>\$ 103,275</u></b>	<b><u>\$ 351,273</u></b>	<b><u>\$ 43,475</u></b>	<b><u>\$ 120,317</u></b>	<b><u>\$ 2,862</u></b>	<b><u>\$ 699,459</u></b>

The following represents loans individually evaluated for impairment and loans acquired with deteriorated credit quality by class of loans as of December 31, 2022 (dollars in thousands):

	<u>2022</u>		
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:			
<i>Commercial loans</i>	\$ 493	\$ 179	\$ -
<i>Residential real estate loans</i>			
Open-end home equity	63	50	-
1 – 4 family (1st mortgages)	268	58	-
<i>Non-residential real estate loans</i>			
Non-farm	923	98	-
<i>Consumer - other</i>	9	3	-
With an allowance recorded:			
<i>Residential real estate loans</i>			
Open-end home equity	429	429	6
1 – 4 family (1st mortgages)	1,030	1,015	10
<i>Non-residential real estate loans</i>			
Non-farm	<u>342</u>	<u>279</u>	<u>14</u>
<b>Total</b>	<b><u>\$ 3,557</u></b>	<b><u>\$ 2,111</u></b>	<b><u>\$ 30</u></b>

## NOTE 6 - LOANS (CONTINUED)

The following is additional information with respect to impaired loans for the year ended December 31, 2022 (dollars in thousands):

	<b>2022</b>
Average investment in impaired loans	<u>\$ 2,347</u>
Interest income recognized on impaired loans	<u>\$ 109</u>
Interest income recognized on a cash basis on impaired loans	<u>\$ -</u>

Occasionally, the Company modifies loans to borrowers in financial distress by providing, interest only periods, term extension, and other-than-insignificant payment delay or interest rate reduction.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as interest only payment period may be granted within the current reporting period.

There were two loans in 2023 that had interest only modifications for a set period of time before returning to principal and interest payments. The post-modification balances equal the pre-modification balances, resulting in no charge-offs. There were no trouble debt restructurings "TDR" in 2022. There were no TDR that subsequently defaulted within twelve months of the date of modification during the years ended December 31, 2022.

The following presents the amortized cost basis of loans in past due and non-accrual loans as of December 31, 2023 and the recorded investment as of December 31, 2022 by class of loans (dollars in thousands).

	Loans past due accruing interest			Loans on non- accrual	Loans not past due or non- accrual	Total
	30 – 89 days	90+ days	Total			
<b>2023</b>						
<i>Commercial loans:</i>						
Agricultural loans	\$ -	\$ -	\$ -	\$ -	\$ 1,710	\$ 1,710
Commercial loans	23	-	23	179	62,920	63,122
PPP	-	-	-	-	18	18
Overdraft LOC	-	-	-	-	55	55
Non-profit/political subdivisions	-	-	-	-	358	358
<i>Residential real estate loans:</i>						
Open-end home equity	53	17	70	55	21,873	21,998
1 – 4 family (1 <sup>st</sup> mortgages)	360	34	394	234	90,724	91,352
1 – 4 family (Jr. mortgages)	-	-	-	-	248	248
<i>Non-residential real estate loans:</i>						
Multifamily	-	-	-	-	82,215	82,215
Farm	-	-	-	-	5,472	5,472
Non-farm	98	-	98	59	294,109	294,266
<i>Construction real estate loans</i>	-	-	-	-	43,663	43,663
<i>Consumer loans:</i>						
Vehicle	217	16	233	27	59,509	59,769
Overdraft LOC	1	-	1	-	78	79
Mobile home	15	-	15	-	1,274	1,289
Home improvement	-	-	-	-	90	90
Other	147	-	147	85	44,391	44,623
<i>Credit card</i>	<u>128</u>	<u>4</u>	<u>132</u>	<u>-</u>	<u>2,550</u>	<u>2,682</u>
<b>Total</b>	<u>\$ 1,042</u>	<u>\$ 71</u>	<u>\$ 1,113</u>	<u>\$ 639</u>	<u>\$ 711,257</u>	<u>\$ 713,009</u>

Loans that were on nonaccrual as of December 31, 2023 totaled \$639,000, with \$64,000 of these loans having an individual reserve amount of \$14,000, the remaining \$575,000 had no individual impairment allocated.

**NOTE 6 - LOANS (CONTINUED)**

	Loans past due accruing interest			Loans on non-accrual	Loans not past due or non-accrual	Total
	30 – 89 days	90+ days	Total			
<b>2022</b>						
<i>Commercial loans:</i>						
Agricultural loans	\$ -	\$ -	\$ -	\$ -	\$ 1,921	\$ 1,921
Commercial loans	137	-	137	179	75,377	75,693
PPP	-	-	-	-	28	28
Overdraft LOC	-	-	-	-	209	209
Non-profit/political subdivisions	-	-	-	-	406	406
<i>Residential real estate loans:</i>						
Open-end home equity	247	-	247	44	22,076	22,367
1 – 4 family (1 <sup>st</sup> mortgages)	261	17	278	175	80,260	80,713
1 – 4 family (Jr. mortgages)	-	-	-	-	195	195
<i>Non-residential real estate loans:</i>						
Multifamily	-	-	-	-	69,591	69,591
Farm	-	-	-	-	5,943	5,943
Non-farm	27	-	27	121	275,591	275,739
<i>Construction real estate loans</i>						
	-	-	-	-	43,475	43,475
<i>Consumer loans:</i>						
Vehicle	207	-	207	-	70,429	70,636
Overdraft LOC	1	-	1	-	82	83
Mobile home	10	-	10	-	1,516	1,526
Home improvement	-	-	-	-	125	125
Other	155	-	155	3	47,789	47,947
<i>Credit card</i>	<u>26</u>	<u>-</u>	<u>26</u>	<u>-</u>	<u>2,836</u>	<u>2,862</u>
<b>Total</b>	<u>\$ 1,071</u>	<u>\$ 17</u>	<u>\$ 1,088</u>	<u>\$ 522</u>	<u>\$ 697,849</u>	<u>\$ 699,459</u>

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, 2023 and 2022 based on risk category (dollars in thousands):

**NOTE 6 - LOANS (CONTINUED)**

As of December 31, 2023

\*Dollars in thousands

	Term loans amortized cost basis by origination year						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
<b>Commercial loans</b>									
Agricultural									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	18	18
Pass	-	28	92	12	41	136	1,327	55	1,692
Not rated	-	-	-	-	-	-	-	-	-
<b>Total agricultural</b>	<b>\$ -</b>	<b>\$ 28</b>	<b>\$ 92</b>	<b>\$ 12</b>	<b>\$ 41</b>	<b>\$ 136</b>	<b>\$ 1,327</b>	<b>\$ 74</b>	<b>\$ 1,710</b>
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
<b>Commercial</b>									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	154	75	186	415
Special mention	-	-	-	2,864	-	24	447	106	3,441
Pass	12,382	11,672	5,599	5,728	2,348	5,562	15,935	43	59,267
Not rated	-	-	-	-	-	-	-	-	-
<b>Total commercial</b>	<b>\$ 12,382</b>	<b>\$ 11,672</b>	<b>\$ 5,599</b>	<b>\$ 8,592</b>	<b>\$ 2,348</b>	<b>\$ 5,740</b>	<b>\$ 16,457</b>	<b>\$ 334</b>	<b>\$ 63,122</b>
Current year-to-date gross write-offs (recoveries)	-	49	-	-	-	-	-	-	49
<b>PPP</b>									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	-	-	18	-	-	-	-	-	18
Not rated	-	-	-	-	-	-	-	-	-
<b>Total PPP</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18</b>
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
<b>Commercial overdraft LOC</b>									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	55	-	55
<b>Total overdraft</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 55</b>	<b>\$ -</b>	<b>\$ 55</b>
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
<b>Nonprofit/political subdivisions</b>									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	110	-	64	31	115	37	-	-	358
Not rated	-	-	-	-	-	-	-	-	-
<b>Total nonprofit/political subdivision</b>	<b>\$ 110</b>	<b>\$ -</b>	<b>\$ 64</b>	<b>\$ 31</b>	<b>\$ 115</b>	<b>\$ 37</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 358</b>
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
<b>Residential loans</b>									
<b>Home equity</b>									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	15	-	142	157
Special mention	-	15	-	-	-	14	83	144	256
Pass	720	2,778	177	203	243	225	16,215	1,023	21,585
Not rated	-	-	-	-	-	-	-	-	-
<b>Total open-end home equity</b>	<b>\$ 720</b>	<b>\$ 2,794</b>	<b>\$ 177</b>	<b>\$ 203</b>	<b>\$ 243</b>	<b>\$ 254</b>	<b>\$ 16,298</b>	<b>\$ 1,309</b>	<b>\$ 21,998</b>
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	(11)	-	-	(11)
<b>1 - 4 family (1st mortgages)</b>									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	14	333	-	-	346
Special mention	-	-	-	-	-	439	-	-	439
Pass	6,787	22,643	10,378	13,876	8,844	27,997	-	42	90,567
Not rated	-	-	-	-	-	-	-	-	-
<b>Total 1 - 4 family (1st mortgages)</b>	<b>\$ 6,787</b>	<b>\$ 22,643</b>	<b>\$ 10,378</b>	<b>\$ 13,876</b>	<b>\$ 8,857</b>	<b>\$ 28,769</b>	<b>\$ -</b>	<b>\$ 42</b>	<b>\$ 91,352</b>
Current year-to-date gross write-offs (recoveries)	-	-	-	-	3	(8)	-	-	(5)

**NOTE 6 - LOANS (CONTINUED)**

As of December 31, 2023

*Dollars in thousands	Term loans amortized cost basis by origination year						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
1 - 4 family (Jr. mortgages)									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	248	-	-	-	-	-	-	-	248
Not rated	-	-	-	-	-	-	-	-	-
Total 1 - 4 family (Jr. mortgages)	\$ 248	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 248
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Residential Construction									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	520	251	-	-	-	-	-	-	771
Not rated	-	-	-	-	-	-	-	-	-
Total 1 - 4 family construction	\$ 520	\$ 251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 771
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Non-Residential loans									
Multifamily									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	9,368	25,422	9,071	9,120	6,855	22,379	-	-	82,215
Not rated	-	-	-	-	-	-	-	-	-
Total multifamily	\$ 9,368	\$ 25,422	\$ 9,071	\$ 9,120	\$ 6,855	\$ 22,379	\$ -	\$ -	\$ 82,215
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Farm									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	45	-	-	45
Pass	249	487	-	230	811	3,651	-	-	5,428
Not rated	-	-	-	-	-	-	-	-	-
Total farm	\$ 249	\$ 487	\$ -	\$ 230	\$ 811	\$ 3,696	\$ -	\$ -	\$ 5,472
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Non-farm									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	3	-	-	1,567	-	-	1,570
Special mention	-	-	343	-	767	504	-	-	1,614
Pass	28,257	48,146	62,702	26,659	23,756	95,747	5,688	127	291,082
Not rated	-	-	-	-	-	-	-	-	-
Total non-farm	\$ 28,257	\$ 48,146	\$ 63,047	\$ 26,659	\$ 24,523	\$ 97,819	\$ 5,688	\$ 127	\$ 294,266
Current year-to-date gross write-offs (recoveries)	-	-	30	-	-	-	-	-	30
Construction loans non-residential									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	12,314	25,953	3,526	1,099	-	-	-	-	42,892
Not rated	-	-	-	-	-	-	-	-	-
Total multifamily	\$ 12,314	\$ 25,953	\$ 3,526	\$ 1,099	\$ -	\$ -	\$ -	\$ -	\$ 42,892
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-

**NOTE 6 - LOANS (CONTINUED)**

As of December 31, 2023

*Dollars in thousands	Term loans amortized cost basis by origination year						Revolving Loans	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Consumer loans									
Vehicle									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	76	16	-	8	8	-	-	109
Pass	12,166	29,381	10,005	5,815	1,786	507	-	-	59,660
Not rated	-	-	-	-	-	-	-	-	-
Total vehicle	\$ 12,166	\$ 29,457	\$ 10,021	\$ 5,815	\$ 1,794	\$ 515	\$ -	\$ -	\$ 59,769
Current year-to-date gross write-offs (recoveries)	2	31	12	5	-	(2)	-	-	47
Consumer overdraft LOC									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	79	-	79
Total overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79	\$ -	\$ 79
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Mobile home									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	15	-	-	15
Pass	37	32	52	122	131	899	-	-	1,274
Not rated	-	-	-	-	-	-	-	-	-
Total mobile home	\$ 37	\$ 32	\$ 52	\$ 122	\$ 131	\$ 915	\$ -	\$ -	\$ 1,289
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Home improvement									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	7	45	33	5	-	-	-	-	90
Not rated	-	-	-	-	-	-	-	-	-
Total home improvement	\$ 7	\$ 45	\$ 33	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 90
Current year-to-date gross write-offs (recoveries)	-	-	-	-	-	-	-	-	-
Other									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	17	-	64	-	6	-	-	86
Special mention	-	-	22	17	-	123	-	-	161
Pass	4,642	10,418	7,580	6,222	4,391	11,114	9	-	44,375
Not rated	-	-	-	-	-	-	-	-	-
Total other	\$ 4,642	\$ 10,434	\$ 7,602	\$ 6,302	\$ 4,391	\$ 11,242	\$ 9	\$ -	\$ 44,623
Current year-to-date gross write-offs (recoveries)	-	2	-	26	-	(11)	-	-	17
Credit card									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-	-
Pass	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	2,682	-	2,682
Total credit card	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,682	\$ -	\$ 2,682
Current year-to-date gross write-offs (recoveries)	12	-	-	-	-	-	-	-	12
Total loans	\$ 87,806	\$ 177,365	\$ 109,682	\$ 72,065	\$ 50,109	\$ 171,502	\$ 42,595	\$ 1,885	\$ 713,009
Total year-to-date gross write-offs (recoveries)	14	82	41	31	3	(31)	-	-	139
Loan totals by grade									
Doubtful	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-standard	-	17	3	64	14	2,075	75	328	2,574
Special mention	-	92	381	2,880	775	1,171	530	268	6,096
Pass	87,806	177,257	109,298	69,122	49,321	168,255	39,174	1,290	701,523
Not rated	-	-	-	-	-	-	2,816	-	2,816
Total Loans	\$ 87,806	\$ 177,365	\$ 109,682	\$ 72,065	\$ 50,109	\$ 171,502	\$ 42,595	\$ 1,885	\$ 713,009

**NOTE 6 - LOANS (CONTINUED)**

<b>2022</b>	<b>Pass</b>	<b>Special mention</b>	<b>Sub- standard</b>	<b>Doubtful</b>	<b>Not rated</b>	<b>Total</b>
<i>Commercial loans:</i>						
Agricultural loans	\$ 1,875	\$ 46	\$ -	\$ -	\$ -	\$ 1,921
Commercial loans	67,023	797	7,873	-	-	75,693
PPP	28	-	-	-	-	28
Overdraft LOC	-	-	-	-	209	209
Non-profit/political subdivisions	406	-	-	-	-	406
<i>Residential real estate loans:</i>						
Open-end home equity	21,904	398	65	-	-	22,367
1 – 4 family (1 <sup>st</sup> mortgages)	80,048	406	259	-	-	80,713
1 – 4 family (Jr. mortgages)	195	-	-	-	-	195
<i>Non-residential real estate loans:</i>						
Multifamily	69,591	-	-	-	-	69,591
Farm	5,691	252	-	-	-	5,943
Non-farm	272,050	1,848	1,841	-	-	275,739
<i>Construction real estate</i>	43,475	-	-	-	-	43,475
<i>Consumer loans:</i>						
Vehicle	70,550	86	-	-	-	70,636
Overdraft LOC	-	-	-	-	83	83
Mobile home	1,519	4	-	-	-	1,523
Home improvement	125	-	-	-	-	125
Other	47,808	139	3	-	-	47,950
<i>Credit card</i>	-	-	-	-	2,862	2,862
<b>Total</b>	<b>\$ 682,288</b>	<b>\$ 3,976</b>	<b>\$10,041</b>	<b>\$ -</b>	<b>\$ 3,154</b>	<b>\$ 699,459</b>

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 \$13,455,000 and \$10,208,000 at December 31, 2023 and 2022, respectively.

The following is a summary of activity during 2023 and 2022 with loan renewals included in additions and repayments (dollars in thousands):

	<b>Balance at beginning</b>	<b>Additions</b>	<b>Repayments</b>	<b>Balance at end</b>
2023	<u>\$10,208</u>	<u>\$3,777</u>	<u>\$ 530</u>	<u>\$ 13,455</u>
2022	<u>\$13,636</u>	<u>\$ 821</u>	<u>\$4,249</u>	<u>\$ 10,208</u>

## NOTE 7 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2023 and 2022 (dollars in thousands):

	<b>2023</b>	<b>2022</b>
Land and improvements	\$ 2,740	\$ 2,740
Buildings	16,876	16,191
Equipment	<u>13,533</u>	<u>12,964</u>
	33,149	31,895
Less accumulated depreciation	<u>22,710</u>	<u>21,772</u>
Premises and equipment, net	<u>\$ 10,439</u>	<u>\$10,123</u>

Depreciation of premises and equipment and amortization of right of use asset amounted to \$1,056,000 in 2023 and \$1,067,000 in 2022.

The following table presents undiscounted future lease payments for the Corporation's two operating leases for 2024 through 2026:

2024	142
2025	142
2026	<u>89</u>
Total undiscounted cash flows	\$ 373
Less: Imputed interest	<u>72</u>
Present value of lease liabilities	<u>\$ 301</u>

The Bank has recorded a lease obligation for the two operating leases described above in the amount of \$301,000 as of December 31, 2023 with a corresponding right of use asset in the amount of \$301,000 in other liabilities and other assets, respectively, in the consolidated financial statements. The Bank's leases have a weighted average remaining term of 1.6 years.

## 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 \$235,272,000 and \$214,595,000 as of December 31, 2023 and 2022, respectively.

Loans sold in the secondary market amounted to \$17,785,000 and \$25,925,000 during the years ended December 31, 2023 and 2022, respectively, resulting in gain on sale of loans of \$476,000 in 2023 and \$799,000 in 2022.

The following is a summary of activity for capitalized mortgage servicing rights for the years ended December 31, 2023 and 2022 (dollars in thousands):

	<b>2023</b>	<b>2022</b>
Balance at beginning of year	\$1,417	\$1,532
Capitalized servicing rights	200	297
Amortization	<u>(365)</u>	<u>(412)</u>
Balance at end of year	<u>\$1,252</u>	<u>\$1,417</u>

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

## NOTE 9 - DEPOSITS

Time deposits at December 31, 2023 that included individual deposits of \$250,000 and over amounted to \$38,421,000 and \$15,916,000 at December 31, 2022.

At December 31, 2023, the scheduled maturities of time deposits were as follows (dollars in thousands):

2024	\$ 121,278
2025	15,856
2026	11,465
2027	8,112
2028	4,678
Thereafter	<u>467</u>
Total	<u>\$ 161,856</u>

Deposits from officers, directors, related interest, and employees of the Bank approximated \$6,382,000 as of December 31, 2023, and \$6,899,000 at December 31, 2022.

## NOTE 10 - 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 December 31, 2023 and December 31, 2022 totaled \$46,529,000 and \$38,157,000, respectively. The weighted average interest rate was 3.45% for securities sold under repurchase agreements outstanding as of December 31, 2023 and 1.98% as of December 31, 2022. 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, 2023, 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, 2023, there was no fed funds purchased as compared to December 31, 2022 when there was \$2,089,000 in federal funds purchased with a rate of 5.35%.

## NOTE 11 - BORROWED FUNDS

Borrowed funds consisted of the following at December 31, 2023 and 2022 (dollars in thousands):

	2023	2022
Federal Home Loan Bank (FHLB):		
Secured note, with interest at 4.39%, due January 2023	\$ -	\$10,000
Secured note, with interest at 4.38%, due January 2023	-	9,000
Secured note, with interest at 4.40%, due January 2023	-	24,000
Secured note, with interest at 5.47%, due March 2024	\$16,000	-
Secured note, with interest at 2.49%, due May 2024	5,000	5,000
Secured note, with interest at 2.42%, due May 2024	7,500	7,500
Secured note, with interest at 2.19%, due June 2024	5,000	5,000
Secured note, with interest at 4.12%, due May 2026	5,000	-
Secured note, with interest at 4.29%, due March 2027	5,000	-
Secured note, with interest at 4.41%, due March 2027	5,000	-
Secured note, with interest at 3.84%, due January 2028	<u>10,000</u>	<u>-</u>
	<u>\$58,500</u>	<u>\$60,500</u>

Future maturities of borrowed funds at December 31, 2023 were as follows (dollars in thousands):

2024	\$ 33,500
2025	-
2026	5,000
2027	10,000
2028	<u>10,000</u>
Total	<u>\$ 58,500</u>

The FHLB notes require monthly interest payments and are secured by stock in the FHLB of Cincinnati and eligible mortgage loans totaling \$278,324,000 at December 31, 2023.

At December 31, 2023, the Bank has available borrowings of \$29,883,000 with the Federal Home Loan Bank based on mortgage loan collateral pledged and outstanding borrowed funds.

## NOTE 12 - NON-INTEREST EXPENSES

The following is a summary of non-interest expenses for the years ended December 31, 2023 and 2022 (dollars in thousands):

	2023	2022
Salaries, wages, and employee benefits	\$ 17,606	\$ 16,513
Occupancy of premises	1,364	1,353
Amortization of core deposit intangible assets	80	160
FDIC premium assessments	608	376
Equipment and vehicle	2,915	2,733
Professional and examination	979	864
State franchise and other taxes	869	1,127
Postage, stationery, and supplies	692	644
Advertising and marketing	630	655
Third-party computer processing	399	339
MasterCard franchise and processing	363	298
Loan collection and repossession fees	56	123
ATM network and processing fees	616	540
Other	<u>1,624</u>	<u>1,956</u>
Total non-interest expenses	<u>\$ 28,801</u>	<u>\$ 27,681</u>

## NOTE 13 - FEDERAL INCOME TAXES

The provision for federal income taxes consisted of the following for 2023 and 2022 (dollars in thousands):

	2023	2022
Current	\$ 2,630	\$ 2,718
Deferred	<u>(386)</u>	<u>261</u>
Total	<u>\$ 2,244</u>	<u>\$ 2,979</u>

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):

	2023	2022
Expected tax using statutory tax rate of 21% for 2023 and 2022	\$ 2,721	\$ 3,569
Increase (decrease) in tax resulting from:		
Tax-exempt income on state and municipal securities and political subdivision loans	(204)	(328)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	19	5
Increase in cash value of life insurance policies	(106)	(89)
Tax-exempt income earned by Croghan Risk Management	(174)	(184)
Other, net	<u>(12)</u>	<u>6</u>
Total	<u>\$ 2,244</u>	<u>\$ 2,979</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax liabilities and deferred tax assets at December 31, 2023 and 2022 are presented below (dollars in thousands):

	2023	2022
Deferred tax assets:		
Purchase accounting basis difference	\$ 52	\$ 92
Allowance for credit and loan losses	1,862	1,824
Unrealized loss on securities available-for-sale	7,570	9,629
Accrued expenses and other	<u>390</u>	<u>336</u>
Total deferred tax assets	<u>9,874</u>	<u>11,881</u>
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	-	-
Purchase accounting basis difference	741	721
Depreciation of premises and equipment	137	120
Federal Home Loan Bank stock dividends	218	354
Mortgage servicing rights	263	298
Prepaid expenses	40	171
Deferred loan costs and other	<u>546</u>	<u>615</u>
Total deferred tax liabilities	<u>1,945</u>	<u>2,279</u>
Net deferred tax assets	<u>\$ 7,929</u>	<u>\$ 9,602</u>

Net deferred tax assets at December 31, 2023 and December 31, 2022 are included in other assets 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, 2023 and 2022.

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, 2023. The tax years that remain open and subject to examination as of December 31, 2023 are years 2020 – 2023 for Federal and the State of Ohio and Michigan.

## 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, 2023 and 2022 amounted to \$1,052,000 and \$984,000, respectively. As of December 31, 2023, the Plan held 8,142 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 certain 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 \$26,328,000 and \$26,561,000 at December 31, 2023 and 2022, respectively.

In connection with the agreements, the Bank provided an estimated liability for accumulated pre and post-retirement benefits of \$470,000 at December 31, 2023 and \$493,000 at December 31, 2022, which is included in other liabilities in the accompanying consolidated balance sheets. The Bank had a \$25,000 death benefit payout in 2023, and recognized an expense for deferred compensation of \$2,000 in 2023 and a credit of \$9,000 in 2022.

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

## NOTE 15 - STOCK-BASED COMPENSATION

At the 2022 Annual Meeting of Shareholders, the shareholders of the Corporation adopted the Croghan Bancshares, Inc. 2022 Equity Incentive Plan (the "2022 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 125,000 shares are available for issuance pursuant to the 2022 Plan. 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.

At December 31, 2023 and 2022, there were no options remaining. No compensation expense related to the options was recognized in 2023 or 2022 and no unamortized compensation expense remains.

Restricted stock awards in 2023 were issued under the 2012 and the 2022 Plan. The Corporation granted 5,254 shares of restricted stock in 2023. A summary of restricted stock activity for 2023 and 2022 activity is as follows:

	2023		2022	
	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value
Non-vested at beginning of year	9,116	\$55.60	9,134	\$51.37
Granted	5,254	49.85	3,567	63.68
Vested	(4,512)	53.89	(3,585)	57.24
Forfeited	<u>(250)</u>	<u>46.67</u>	<u>-</u>	<u>-</u>
Non-vested at end of year	<u>9,608</u>	<u>\$55.02</u>	<u>9,116</u>	<u>\$55.60</u>

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 \$250,000 in 2023 and \$188,000 in 2022. As of December 31, 2023, there was \$432,000 of total unrecognized compensation cost related to unvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 2.15 years.

## NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank 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 Bank'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 Bank 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, 2023 and 2022 (dollars in thousands):

	<u>Contract amount</u>	
	<u>2023</u>	<u>2022</u>
Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit	<u>\$ 175,036</u>	<u>\$ 143,028</u>
Standby letters of credit	<u>\$ 22</u>	<u>\$ 22</u>

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, 2023 expire in 2024. 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 Bank'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, 2023 and 2022, that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2023, 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 table. 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, 2023 and 2022 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
<b>As of December 31, 2023</b>						
Total Capital (to Risk-Weighted Assets)						
Bank	\$133,324	14.7%	\$72,404	≥ 8.0%	\$ 90,505	≥ 10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Bank	124,352	13.7%	40,727	≥ 4.5%	58,828	≥ 6.5%
Tier I Capital (to Risk-Weighted Assets)						
Bank	124,352	13.7%	54,303	≥ 6.0%	72,404	≥ 8.0%
Tier I Capital (to Average Assets)						
Bank	124,352	11.5%	43,142	≥ 4.0%	53,927	≥ 5.0%
<b>As of December 31, 2022</b>						
Total Capital (to Risk-Weighted Assets)						
Bank	\$128,553	14.5%	\$71,044	≥ 8.0%	\$ 88,805	≥ 10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
Bank	119,867	13.5%	39,962	≥ 4.5%	57,723	≥ 6.5%
Tier I Capital (to Risk-Weighted Assets)						
Bank	119,867	13.5%	53,283	≥ 6.0%	71,044	≥ 8.0%
Tier I Capital (to Average Assets)						
Bank	119,867	10.7%	44,773	≥ 4.0%	55,966	≥ 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, 2023 and 2022 and for each of the two years in the period ended December 31, 2023 was as follows (dollars in thousands):

<b>CONDENSED BALANCE SHEETS</b>	<b>2023</b>	<b>2022</b>
Assets:		
Cash	\$ 2,508	\$ 682
Dividends receivable from subsidiary	-	1,230
Investment in subsidiaries	117,979	107,984
Available-for-sale security	350	350
Other asset	<u>20</u>	<u>54</u>
Total assets	<u>\$120,857</u>	<u>\$110,300</u>
Liabilities:		
Dividends payable	<u>1,200</u>	<u>1,230</u>
Total liabilities	<u>1,200</u>	<u>1,230</u>
Stockholders' equity:		
Common stock	31,328	31,328
Surplus	13,185	13,126
Retained earnings	121,718	116,205
Accumulated other comprehensive income (loss)	(28,479)	(36,209)
Treasury stock	<u>(18,095)</u>	<u>(15,380)</u>
Total stockholders' equity	<u>119,657</u>	<u>109,070</u>
Total liabilities and stockholders' equity	<u>\$120,857</u>	<u>\$110,300</u>
<b>CONDENSED STATEMENTS OF INCOME</b>	<b>2023</b>	<b>2022</b>
Income – dividends from subsidiaries	\$ 8,221	\$ 8,082
Professional fees, interest, and other expenses	<u>(144)</u>	<u>(164)</u>
Income before income taxes and equity in undistributed net income of subsidiary	8,077	7,918
Federal income tax benefit	<u>(19)</u>	<u>(30)</u>
Income before equity in undistributed net income of subsidiary	8,096	7,948
Equity in net income of subsidiary, less dividends	<u>2,677</u>	<u>6,066</u>
Net income	<u>\$10,773</u>	<u>\$14,014</u>

**NOTE 18 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)**

<b>CONDENSED STATEMENTS OF CASH FLOWS</b>	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Net income	\$10,773	\$14,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income of subsidiary, less dividends	(2,677)	(6,066)
Decrease (increase) in dividends receivable	1,230	(21)
Stock-based compensation expense	250	188
Decrease (increase) in other assets	<u>34</u>	<u>(2)</u>
Net cash provided by operating activities	<u>9,610</u>	<u>8,113</u>
Cash flows from financing activities:		
Cash dividends paid	(4,878)	(4,839)
Treasury shares purchased	<u>(2,906)</u>	<u>(2,661)</u>
Net cash used in financing activities	<u>(7,784)</u>	<u>(7,500)</u>
Net increase in cash	1,826	613
Cash at beginning of year	<u>682</u>	<u>69</u>
Cash at end of year	<u>\$ 2,508</u>	<u>\$ 682</u>

The Board of Directors authorized a stock buyback plan commencing February 1, 2023 and ending August 1, 2023, which allows up to 64,563 outstanding common shares to be repurchased. During the period February 1, 2023 through August 1, 2023, 30,785 shares were repurchased. The Board of Directors extended the stock buyback plan commencing on August 1, 2023 and ending on February 1, 2024, which allows up to 106,204 outstanding common shares to be repurchased. During the period August 1, 2023 through December 31, 2023, 19,554 shares were repurchased.

The Board of Directors extended the stock buyback plan commencing February 1, 2024 and ending August 1, 2024, which allows up to 105,287 additional 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, 2023 and 2022.

## NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2023 and 2022, 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
<b>2023</b>				
Recurring:				
Securities available-for-sale:				
Collateralized mortgage obligations	\$ -	\$93,377	\$ -	\$93,377
Mortgage backed securities	-	47,361	-	47,361
SBA loan pools	-	3,702	-	3,702
U.S. Treasury	27,069	-	-	27,069
Obligations of states and political subdivisions	-	124,164	-	124,164
Other	-	350	-	350
Total	<u>\$27,069</u>	<u>\$ 268,954</u>	<u>\$ -</u>	<u>\$ 296,023</u>
Nonrecurring:				
Other real estate owned	\$ -	\$ -	\$ -	\$ -
Individually evaluated loans	-	-	640	640
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 640</u>	<u>\$ 640</u>
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
<b>2022</b>				
Recurring:				
Securities available-for-sale:				
Collateralized mortgage obligations	\$ -	\$ 94,990	\$ -	\$ 94,990
Mortgage backed securities	-	42,180	-	42,180
SBA loan pools	-	5,169	-	5,169
U.S. Treasury	33,271	-	-	33,271
Obligations of states and political subdivisions	-	154,276	-	154,276
Other	-	350	-	350
Total	<u>\$33,271</u>	<u>\$ 296,965</u>	<u>\$ -</u>	<u>\$ 330,236</u>
Nonrecurring:				
Other real estate owned	\$ -	\$ -	\$ 61	\$ 61
Individually evaluated loans	-	-	2,081	2,081
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,142</u>	<u>\$ 2,142</u>

There were no transfers of financial instruments between Levels 1 and 2 during 2023 and 2022.

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, or 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 3 at December 31, 2023 and 2022.

### ***Individually Evaluated Loans***

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date and adjusted for selling costs as appropriate. 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, 2023 and 2022, as well as indication of where the instrument falls within the fair value hierarchy described in Note 19, are as follows (dollars in thousands):

	<u>2023</u>		<u>2022</u>	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Securities	\$ 301,999	\$ 301,999	\$ 336,291	\$ 336,291
Loans, net	<u>704,140</u>	<u>670,680</u>	<u>690,773</u>	<u>664,105</u>
Total	<u>\$1,006,139</u>	<u>\$ 972,679</u>	<u>\$1,027,064</u>	<u>\$1,000,396</u>
FINANCIAL LIABILITIES				
Deposits	\$ 887,202	\$ 885,092	\$ 908,898	\$ 904,399
Borrowed funds	<u>58,500</u>	<u>58,187</u>	<u>60,500</u>	<u>59,888</u>
Total	<u>\$ 945,702</u>	<u>\$ 943,279</u>	<u>\$ 969,398</u>	<u>\$ 964,287</u>

The preceding summary does not include cash and cash equivalents, accrued interest receivable, cash surrender value of life insurance, dividends payable, federal funds purchased and securities sold under repurchase agreements, 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 \$175,058,000 at December 31, 2023 and \$143,050,000 at December 31, 2022. 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.

### 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. Securities are classified as Level 1 or Level 2 within the fair value hierarchy.

## **NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

### **Loans**

Fair value for loans is estimated for portfolios of loans with similar financial characteristics, and an exit price income approach is 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. Loans are classified as Level 2 within the fair value hierarchy.

### **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. Deposits are classified as Level 2 within the fair value hierarchy.

### **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. Borrowed funds are classified as Level 2 within the fair value hierarchy.

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**

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

## FREMONT MAIN

323 Croghan Street  
Fremont, OH 43420  
419-332-7301

## MILAN

33 Park Street  
Milan, OH 44846  
567-401-0261

## FREMONT BALLVILLE

1600 River Street  
Fremont, OH 43420  
419-355-2361

## MONROEVILLE

11 Monroe Street  
Monroeville, OH 44847  
419-465-2596

## FREMONT EAST DRIVE THRU

1312 East State Street  
Fremont, OH 43420  
419-355-2342

## NORWALK

60 Whittlesey Avenue  
Norwalk, OH 44857  
419-668-2507

## FREMONT NORTH

910 Sean Drive  
Fremont, OH 43420  
419-334-7188

## OAK HARBOR

147 West Water Street  
Oak Harbor, OH 43449  
419-898-5741

## FREMONT WEST

2001 West State Street  
Fremont, OH 43420  
419-355-2352

## OREGON

4157 Navarre Avenue  
Oregon, OH 43616  
419-691-6264

## BELLEVUE

One Union Square  
Bellevue, OH 44811  
419-483-7395

## PORT CLINTON CATAWBA

2820 East Harbor Road  
Port Clinton, OH 43452  
419-732-6150

## CLYDE

100 North Main Street  
Clyde, OH 43410  
419-547-9525

## PORT CLINTON DOWNTOWN

226 East Perry Street  
Port Clinton, OH 43452  
419-734-5600

## CURTICE

7182 North Lucas Street  
Curtice, OH 43412  
419-836-7722

## TIFFIN DOWNTOWN

48 East Market Street  
Tiffin, OH 44883  
419-447-8777

## GREEN SPRINGS

200 North Broadway Street  
Green Springs, OH 44836  
419-639-2323

## TIFFIN WESTGATE

796 West Market Street  
Tiffin, OH 44883  
419-447-2250

## MAUMEE

3425 Briarfield Boulevard, Suite 100  
Maumee, OH 43537  
419-794-9399

## BOARD OF DIRECTORS

Croghan Bancshares, Inc. & Croghan Colonial Bank

**Jim Bowlus**  
*Lead Director*

**Mike Allen Sr.**

**Josh Frederick**

**John Hoty**

**Claire Johansen**

**Dan Lease**

**Tom McLaughlin**

**Al Mehlow**

**Kendall Rieman**

**Rick Robertson**

**Sarah Zimmerman**

## MANAGEMENT TEAM

Croghan Colonial Bank

**Kendall Rieman**  
President/CEO

**Brad Elfring**  
SVP/Chief Financial Officer

**Carla Waggoner**  
SVP/Chief Operations Officer

**Chip VanDette**  
SVP/Chief Lending Officer

**Chris Kelly**  
SVP/Chief Credit Officer

**Tracy Baughman**  
SVP/Chief Investment Officer

**Theresa Elfring**  
VP/Senior Manager -  
Client Experience

**Shannon George**  
VP/Senior Commercial Lender

**Missy Walker**  
VP/Retail Operations Manager

**Laura Whipple**  
VP/Human Resource Manager

## OFFICERS

Croghan Bancshares, Inc.

**Kendall Rieman**  
President/CEO

**Brad Elfring**  
Treasurer

**Chip VanDette**  
Secretary

**Amy LeJeune**  
Assistant Secretary

## DIRECTORS EMERITI

**John Caputo**

**Steve Futrell**

**Jim Dunn**

**Terry Wolfe**

**Jim Faist**

**Gary Zimmerman**

**CROGHAN**  
BANCSHARES, INC.



**CROGHAN COLONIAL BANK**

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