2023 ANNUAL REPORT

Strengthening the Communities We Serve

Andover Bank

A SUBSIDIARY OF ANDOVER BANCORP, INC.

Mission Statement

To remain a profitable, independent financial service company.

To provide you, our customer, with exceptional service in a professional and enthusiastic manner.

To provide our employees with a continuing opportunity to participate in the future success of the holding company, through personal and professional development.

To strengthen the communities we serve.

2023 ANNUAL REPORT
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Message from the President

On behalf of the board of directors of Andover Bancorp, Inc. and the employees of Andover Bank, I am pleased to report on the strong operating performance of the bank in 2023, as we prepare to celebrate our 140th year in operation.

2023 was a challenging year for banks as we continued to adapt to an evolving economic environment after the pandemic. Since early 2022, the Federal Reserve Bank has increased short-term interest rates at their fastest pace in over 40 years, from virtually 0% to over 5%. This rapid rise in rates to fight excessive inflation has caused liquidity disruptions in the banking community, leading to several high-profile bank failures earlier in the year.

Principled conservative management strategies have always been the hallmark of our operating philosophy. In advance of the market disruptions, we made a concerted effort to focus on liquidity, regulatory capital levels, loan portfolio asset quality, reducing wholesale borrowings, and maintaining strong funding sources. I am proud to report that our time-tested community-based banking model has weathered the economic volatility well and has the bank in good position to take advantage of market opportunities that typically arise at this point in the credit cycle.

While net income for the year of $3,778,297 decreased by 22.5% from last year's net earnings of $4,873,015, these results surpassed our budgeted expectations based on an uncertain economic outlook. Higher interest expense on deposits was the main factor impacting year-over-year earnings. Noninterest income improved by 9.7%. Earnings per share of $1.80 decreased 21.4% from last year's $2.29 earnings per share. Return on average assets was 0.67% and return on average equity adjusted for other comprehensive losses was 7.93%.

In comparing the change in the balance sheet from 2022, total deposits remained relatively unchanged at $524.6 million, and representative of our strong core deposit franchise. It should be noted that the bank had no brokered deposits or wholesale borrowings at year's end. Net loans decreased by $8.8 million, or 3.2%, to $266.5 million, primarily because of considerably higher borrowing rates and caution associated with our balance sheet strategy. Total assets decreased by $13.2 million, or 2.3%, to $558.0 million. Stockholders' equity increased by $6.6 million, or 48.2%, to $20.3 million, and was positively impacted by an increase in the market value of our securities portfolio caused by reduced market interest rates at year-end. The bank remains very well-capitalized as our Tier 1 equity capital ratio of 9.76% and Total Risk-Based capital ratio of 22.79%

are both higher than 2022 and significantly above the regulatory requirements to be well-capitalized of 6.0% and 10.5%.

Asset quality remains exceptionally strong, as total loan delinquency remains well below 1%. Net charge-offs for the year were below $10,000 as total asset quality continues to compare favorably to our peer groups and indicates the bank continues to operate in a safe and sound manner.

I am honored to announce that 2023 marks the 41st consecutive year the bank has paid a dividend and increased the amount of the dividend from the prior year. This record dividend performance is unmatched in the State of Ohio and serves as testimony to our operating performance and capital position. Total dividends declared for 2023 were $0.75 per share, compared to $0.745 per share in 2022. Our focus remains on driving long-term franchise value for you, our shareholders.

We have spent considerable time and resources over the past couple of years investing in the necessary infrastructure needed for future growth to transform the way we do business. These efforts continue as several areas of the bank undergo changes that we feel will create improved customer experiences and better position us to compete in an ever-evolving financial services landscape. We feel confident that these changes will positively impact our performance for years to come.

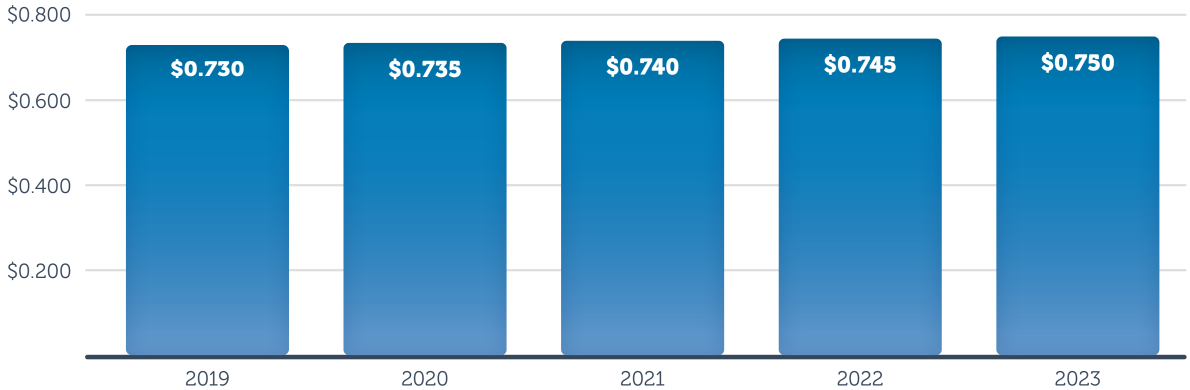
I am proud to report the bank continues to be recognized in our community and among our peers. The bank received the 2023 United Way of Ashtabula County's Community Builder Award. This award recognizes an organization whose philanthropic endeavors in Ashtabula County have added significant value and made a lasting impact in the community. We also received the Rivel Excellence Award for brand awareness and recognition. We were one of ten financial institutions in northeast Ohio to receive this award that focuses on market share and customer satisfaction. Finally, the bank received the Reader's Choice Award from The Star Beacon as Ashtabula County's best bank for the 2nd year in a row. My sincere thanks go to our employees, who are the primary reason the bank receives recognitions like these.

It truly is an honor and a privilege to serve as President of an institution that has been focused on **strengthening the communities we serve** since 1884. Our continued success has been based on the principled business philosophies set forth by our Board of Directors, who provide steadfast guidance and vision, our greatest asset, our employees, who work unselfishly to deliver these results, and you, our shareholders, for your continued confidence and support of your local community bank.

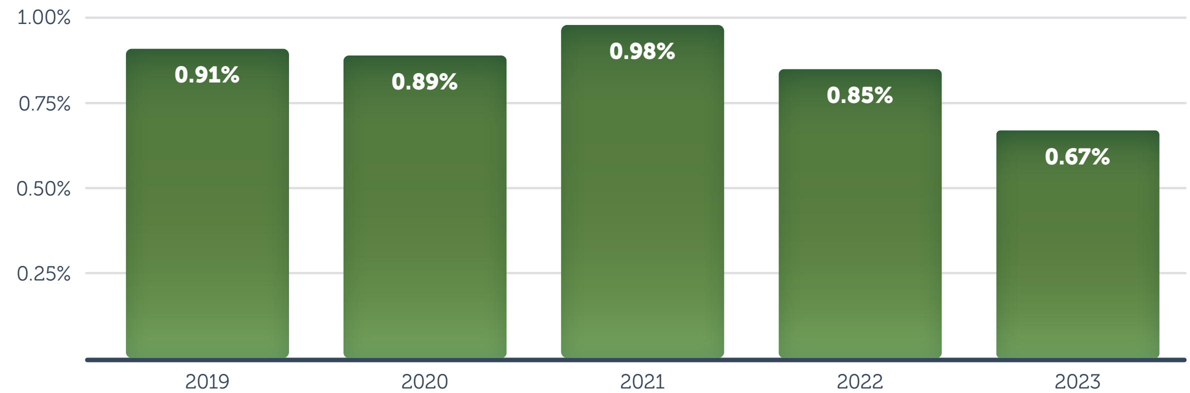
Stephen E. Varckette
President

Financial Charts

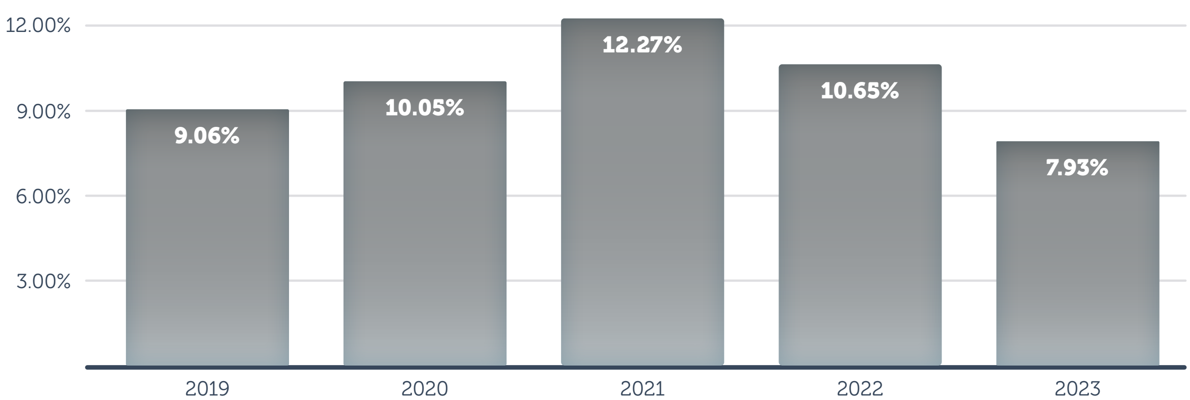
Annual Dividends Per Share
Dollars Per Share

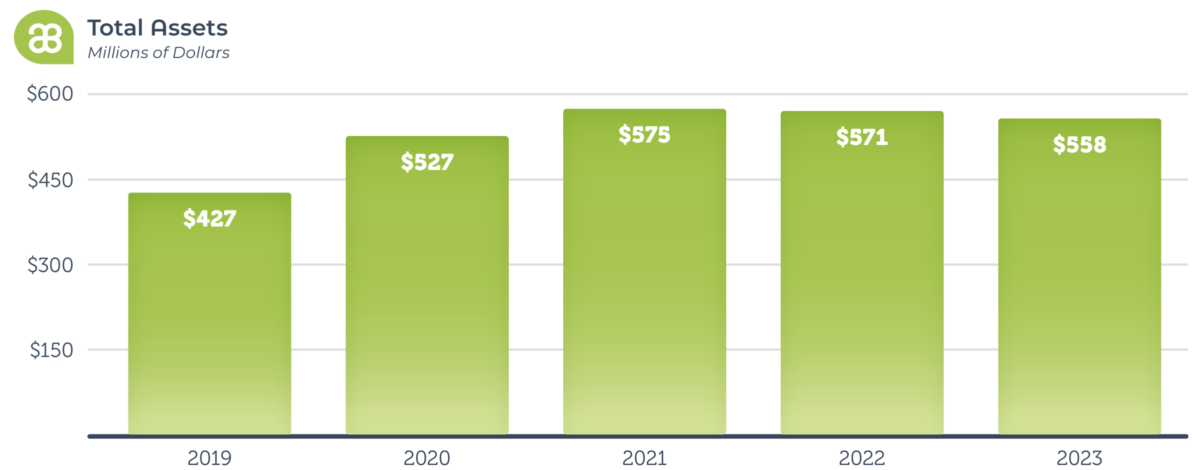


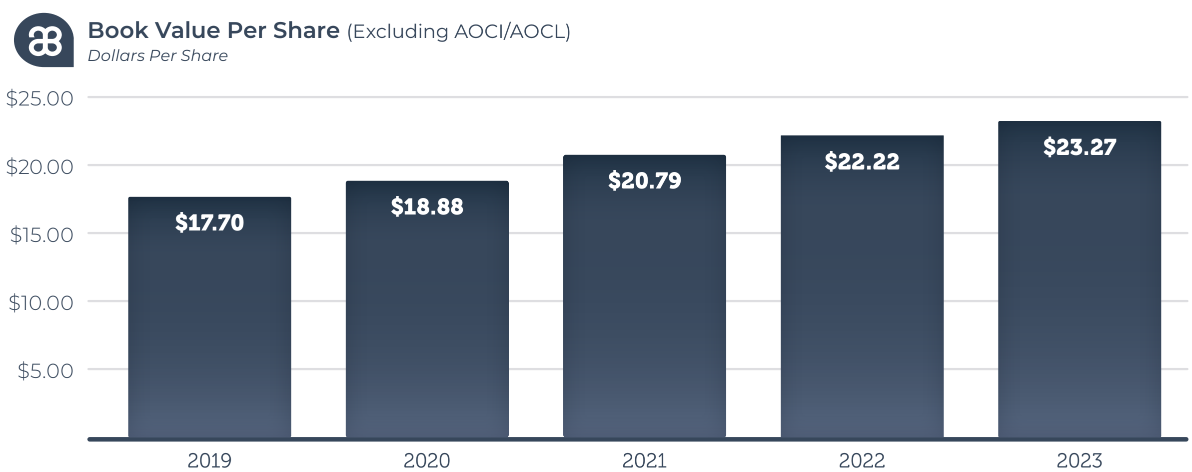
Return on Average Assets
Return Percentage

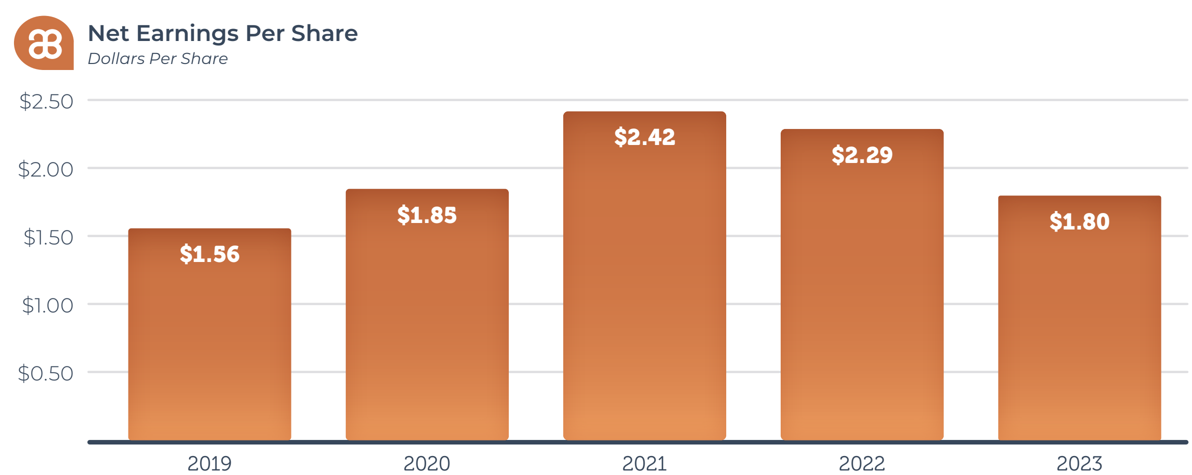


Return on Average Equity (Excluding AOCI/AOCL)
Return Percentage




Total Assets
Millions of Dollars
$600
$450
$300
$150
$427
$527
$575
$571
$558
2019
2020
2021
2022
2023


Book Value Per Share (Excluding AOCI/AOCL)
Dollars Per Share
$25.00
$20.00
$15.00
$10.00
$5.00
$17.70
$18.88
$20.79
$22.22
$23.27
2019
2020
2021
2022
2023


Net Earnings Per Share
Dollars Per Share
$2.50
$2.00
$1.50
$1.00
$0.50
$1.56
$1.85
$2.42
$2.29
$1.80
2019
2020
2021
2022
2023

Board of Directors, Executive Officers, & Officers of Andover Bank

BOARD OF DIRECTORS*

Martin R. Cole
Chairman of Andover Bank
Retired CEO

Stephen E. Varckette
President and CEO
of Andover Bank

Stuart W. Cordell
President and CEO,
E Capital Partners, LLC/The Business of Good Foundation

Patrick Groner, Jr.
Broker/Owner,
Pennington Lines Real Estate

Nicholas J. Jammal
Retired President and CEO,
Ashtabula Rubber Co.

Richard J. Mole, CPA
Adjunct Professor of Accounting and
Financial Management,
Hiram College

Andrea L. Morris
Vice President and Director,
Great Lakes Power

Dr. Edward J. Pollander
Family Dentistry, Andover, OH

Dr. Trista S. Warren
Consultant, Real Estate Manager,
Realtor and Writer

DIRECTOR EMERITUS

A. David Morrow
Robert L. Taylor

**The Directors of Andover Bank also serve as the Directors of Andover Bancorp, Inc.*

EXECUTIVE OFFICERS

Stephen E. Varckette**
President and Chief Executive Officer

Michael B. Benson**
Senior Vice President, Chief Credit Officer

Craig A. Cumberworth**
Senior Vice President, Retail Banking

Edward B. Debevec**
Senior Vice President and Chief Financial Officer

Sean C. Dockery**
Senior Vice President, Commercial Banking
and Senior Lending Officer

Kimberly A. Giddings**
Senior Vice President, Operations

Richard B. Kotila**
Senior Vice President, General Counsel, and Secretary

Daniel J. Weber**
Senior Vice President,
Credit Administration and Retail Lending

Timothy A. Birth
Vice President, Retail Banking

Marc D. Hanneman
Vice President, Investment Services

Eric G. Senor
Vice President, Commercial Banking

Paul W. Skerlong
Vice President, Mortgage Leader

Cathleen A. Square
Vice President and Market Leader, Commercial Banker

Steve C. Vennare
Vice President, Commercial Banking

OFFICERS

Diane M. Brunell
Community Sales Manager, Andover

Dianna L. Culton
Community Sales Manager, Austinburg

Jessica M. Cunningham
Community Sales Manager, Jefferson

Cheryl L. Fink
Community Sales Manager, Albion

Rachel M. Gordon
Controller

David C. Gregory
Compliance Manager

Brian M. Hoyt
Community Sales Manager, Madison

Steven C. Lombard
Assistant Vice President and
Community Sales Manager, Edinboro

Andrew M. Marvin
Assistant Vice President of Operations

Caprice C. Melhuish
Community Sales Manager, Millcreek

James G. Raabe
Community Sales Manager, Geneva

Benjamin A. Rivera
Human Resources Manager

James S. Savel, Jr.
Assistant Vice President and Loan Processing Manager

Donna M. Shaw
Manager, Loan Administration

Jamie L. Stover
Community Sales Manager, Conneaut

Timothy J. Stroud, Sr.
Community Sales Manager, Ashtabula

Todd A. Urmson
Mortgage Loan Officer

***Also Officers of Andover Bancorp, Inc.*

Independent Auditors' Report

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Andover Bancorp, Inc. and Subsidiary
Andover, Ohio

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Andover Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Andover Bancorp, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Andover Bancorp, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, Andover Bancorp, Inc. and Subsidiary adopted new accounting guidance for the measurement of credit losses on financial instruments through a cumulative-effect adjustment to retained earnings. 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.

Independent Auditors' Report, continued

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 Andover Bancorp, Inc. and Subsidiary's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Andover Bancorp, Inc. and Subsidiary'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 Andover Bancorp, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Independent Auditors' Report, continued

Other Information Included in the Annual Report

Management is responsible for the other information included in the Company's Annual Report. The other information comprises the Message from the President, financial information, and nonfinancial information, but it 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 on it.

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 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Maumee, Ohio
March 13, 2024

Consolidated Balance Sheets

December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and Due from Banks	$ 26,196,166	$ 13,045,638
Interest-Bearing Deposits in Banks	3,102,361	2,433,853
Total Cash and Cash Equivalents	29,298,527	15,479,491
Available-for-Sale Securities, at Fair Value	232,159,443	247,857,500
Loans, Net	266,490,069	275,330,406
Premises and Equipment, Net	7,533,900	7,593,874
Restricted Investment in Stock	898,171	1,879,621
Bank-Owned Life Insurance	8,676,525	8,619,996
Accrued Interest Receivable	2,089,135	2,196,156
Other Real Estate Owned	-	9,500
Goodwill	2,654,074	2,654,074
Core Deposit Intangible Asset, Net	-	45,794
Other Assets	8,219,482	9,530,842
Total Assets	$ 558,019,326	$ 571,197,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-Bearing	$ 140,049,738	$ 144,993,724
Interest-Bearing	384,540,790	379,848,960
Total Deposits	524,590,528	524,842,684
Federal Home Loan Bank Borrowings	-	20,000,000
Subordinated Debt, Net of Issuance Costs	9,852,368	9,800,438
Accrued Interest Payable	562,635	166,531
Other Liabilities	2,732,508	2,704,875
Total Liabilities	537,738,039	557,514,528
STOCKHOLDERS' EQUITY		
Common Stock - No Par Value, 5,000,000 Shares Authorized; 3,256,950 Shares Issued	814,238	814,238
Additional Paid-In Capital	1,595,764	1,595,764
Retained Earnings	68,767,347	66,839,780
Unearned Employee Stock Ownership Plan Shares	(2,700,143)	(2,904,292)
Treasury Stock, at Cost, 1,173,520 Shares in 2023 and 1,151,622 Shares in 2022	(20,001,487)	(19,563,465)
Accumulated Other Comprehensive Loss	(28,194,432)	(33,099,299)
Total Stockholders' Equity	20,281,287	13,682,726
Total Liabilities and Stockholders' Equity	$ 558,019,326	$ 571,197,254

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

December 31, 2023 and 2022

	2023	2022
INTEREST AND DIVIDEND INCOME		
Loans, Including Fees	$ 11,282,879	$ 10,018,635
Investment Securities:		
Taxable	3,620,202	2,918,363
Tax-Exempt	2,565,079	3,123,954
Other	602,217	227,034
Total Interest and Dividend Income	18,070,377	16,287,986
INTEREST EXPENSE		
Deposits	3,038,972	549,074
Borrowings	598,854	742,182
Total Interest Expense	3,637,826	1,291,256
NET INTEREST INCOME	14,432,551	14,996,730
CREDIT FOR CREDIT LOSSES	(46,900)	(100,000)
NET INTEREST INCOME AFTER CREDIT FOR CREDIT LOSSES	14,479,451	15,096,730
NONINTEREST INCOME		
Customer Service Fees	1,446,179	1,432,886
Debit Card Fee Income	1,617,562	1,566,935
Earnings on Bank-Owned Life Insurance	211,002	171,475
Mortgage Servicing Fee Income	24,660	29,218
Net Gain (Loss) on Sale of Securities	73,428	(92,342)
Net Gain on Sale of Other Real Estate Owned	16,301	16,318
Net Gain on Sale of Loans	84,528	35,420
Other	305,324	283,607
Total Noninterest Income	3,778,984	3,443,517
NONINTEREST EXPENSES		
Salaries and Employee Benefits	6,492,521	6,074,669
Occupancy	905,296	948,078
Furniture and Equipment	1,102,775	1,031,823
ATM Fees	851,137	744,683
Postage and Freight	174,352	174,106
Data Processing Fees	1,762,970	1,481,813
Supplies	191,875	172,946
Telephone	116,322	116,093
Loan and Other Real Estate Expense	300,583	285,163
Advertising	462,000	459,098
Professional Fees	635,372	578,726
FDIC Assessment Expense	255,403	158,519
Ohio Financial Institution Tax	94,000	322,194
Other	994,402	915,932
Total Noninterest Expenses	14,339,008	13,463,843
INCOME BEFORE INCOME TAXES	3,919,427	5,076,404
INCOME TAX EXPENSE	141,130	203,389
NET INCOME	$ 3,778,297	$ 4,873,015
EARNINGS PER COMMON SHARE	$ 1.80	$ 2.29
WEIGHTED-AVERAGE SHARES OUTSTANDING	2,096,799	2,128,159

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss)

December 31, 2023 and 2022

	2023	2022
NET INCOME	$ 3,778,297	$ 4,873,015
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in Unrealized Gains (Losses) on Available-for-Sale Securities	6,282,120	(44,194,237)
Reclassification Adjustments for Securities (Gains) Losses Included in Income	(73,428)	92,342
Net Unrealized Gains (Losses)	6,208,692	(44,101,895)
INCOME TAX EFFECT	1,303,825	(9,261,398)
OTHER COMPREHENSIVE INCOME (LOSS)	4,904,867	(34,840,497)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 8,683,164	$ (29,967,482)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholder’s Equity

December 31, 2023 and 2022

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2021	$ 814,238	$ 1,595,764	$ 63,545,430	$ (2,588,724)	$ (18,607,729)	$ 1,741,198	$ 46,500,177
Net Income	-	-	4,873,015	-	-	-	4,873,015
Other Comprehensive Loss	-	-	-	-	-	(34,840,497)	(34,840,497)
Cash Dividends Declared ($.745 Per Share)	-	-	(1,578,665)	-	-	-	(1,578,665)
Purchase of Treasury Stock, 47,099 Shares	-	-	-	-	(955,736)	-	(955,736)
Release of Earned ESOP Shares	-	-	-	449,405	-	-	449,405
Repurchase of ESOP Shares	-	-	-	(764,973)	-	-	(764,973)
BALANCE - DECEMBER 31, 2022	814,238	1,595,764	66,839,780	(2,904,292)	(19,563,465)	(33,099,299)	13,682,726
Adoption of ASC 326, net of tax			(279,608)				(279,608)
Net Income	-	-	3,778,297	-	-	-	3,778,297
Other Comprehensive Income	-	-	-	-	-	4,904,867	4,904,867
	-	-		-			
Cash Dividends Declared ($.75 Per Share)	-	-	(1,571,122)	-	-	-	(1,571,122)
Purchase of Treasury Stock, 21,898 Shares	-	-	-	-	(438,022)	-	(438,022)
Release of Earned ESOP Shares	-	-	-	488,102	-	-	488,102
Repurchase of ESOP Shares	-	-	-	(283,953)	-	-	(283,953)
BALANCE - DECEMBER 31, 2023	$ 814,238	$ 1,595,764	$ 68,767,347	$ (2,700,143)	$ (20,001,487)	$ (28,194,432)	$ 20,281,287

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 3,778,297	$ 4,873,015
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	693,045	774,568
Credit for Credit Losses	(46,900)	(100,000)
Net Amortization on Securities	842,757	885,936
Gain on Sale of Securities	(73,428)	92,342
Net Gain on Sale of Loans	(84,528)	(35,420)
Earned ESOP Shares	488,102	449,405
Deferred Income Taxes	(224,226)	44,498
Earnings on Bank-Owned Life Insurance	(211,002)	(171,475)
Gain on Sale of Other Real Estate Owned	(16,301)	(16,318)
Gain on Sale of Premises and Equipment	(19,063)	(8,100)
Increase in Accrued Interest Receivable	107,021	(338,515)
Increase in Accrued Interest Payable	396,104	92,861
Decrease (Increase) in Other Assets	306,087	(161,168)
Increase (Decrease) in Other Liabilities	34,356	(175,604)
Net Cash Provided by Operating Activities	5,970,321	6,206,025
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in Available for Sale Securities:		
Purchases	(13,528,606)	(52,414,721)
Sales	19,569,266	4,858,203
Maturities, Prepayments, and Calls	15,096,760	27,131,508
Proceeds from Redemption of Restricted Stock	981,450	-
Proceeds from Life Insurance	154,473	-
Net Increase in Loans	8,578,232	(14,916,671)
Purchases of Premises and Equipment	(535,347)	(597,577)
Proceeds from Sales of Other Real Estate Owned	65,400	37,734
Proceeds from Sales of Premises and Equipment	19,063	8,100
Purchase of Restricted Stock	0	(53,300)
Net Cash Provided (Used) by Investing Activities	30,400,691	(35,947,724)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase (Decrease) in Deposits	(252,156)	20,033,751
Proceeds from Federal Home Loan Bank Borrowings	0	20,000,000
Repayment of Federal Home Loan Bank Borrowings	(20,000,000)	(10,000,000)
Dividends Paid	(1,577,845)	(1,585,298)
Cash Provided to ESOP for Purchase of Shares	(283,953)	(764,973)
Purchase of Treasury Stock	(438,022)	(955,736)
Net Cash Provided (Used) by Financing Activities	(22,551,976)	26,727,744
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,819,036	(3,013,955)
Cash and Cash Equivalents - Beginning of Year	15,479,491	18,493,446
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 29,298,527	$ 15,479,491
SUPPLEMENTARY NONCASH AND CASH FLOW INFORMATION		
Cash Paid for Interest	$ 3,189,792	$ 1,146,465
Income Taxes Paid	$ 105,000	$ 120,000
Transfer of Loans to Other Real Estate Owned	$ 39,599	$ 29,916

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Andover Bancorp, Inc. (the Company) is a bank holding company with one wholly owned subsidiary, the Andover Bank (the Bank), which is engaged in the business of commercial and retail banking with operations conducted through its corporate headquarters located in Andover, Ohio, as well as 10 branches and a loan production office located in northeast Ohio and western Pennsylvania. These communities are the source of substantially all of the Company's deposit and loan activities. The majority of the Company's income is derived from retail lending activities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and Bank and are collectively referred to as "the Company." All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for credit losses and the valuation of available-for-sale securities.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents includes cash and due from banks and interest-bearing deposits in other banks, which are carried at cost.

Concentrations of Credit Risk

The Company grants residential, commercial, and consumer loans to customers primarily in the communities discussed above. The loan portfolio was comprised of 56% residential real estate mortgage loans, 34% commercial and commercial real estate loans, and 10% consumer and other loans at December 31, 2023.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Securities are classified as available-for-sale and carried at fair value with unrealized holding gains and losses reported in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date based on the amortized cost of the security sold and are included in noninterest income.

Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. For callable debt securities purchased at a premium, such premium is amortized over the period ending with the earliest call date.

Effective January 1, 2023, with the adoption of ASU 2016–13, *Financial Instruments–Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASC 326), for available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria is met, the security's amortized cost basis is written down to fair value through income. If these criteria are not met, 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 in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined 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 the 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, which is limited by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income (loss). Changes in the allowance for credit losses are recorded as a provision for credit loss.

Prior to the adoption of ASC 326, the Company used an other than temporary impairment model. As of December 31, 2023, no allowance for credit losses was required for available-for-sale securities.

Restricted Investment in Stock

The Bank is a member of the Federal Home Loan Bank of Cincinnati (FHLB), Federal Reserve Bank (FRB), and United Bankers Bank. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB, FRB, and United Bankers Bank stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery at par value. Both cash and any stock dividends are reported as income.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred fees, an allowance for loan losses, and premiums or discounts on loans purchased.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. The cash-basis is used when a determination has been made that the principal and interest of the loan is collectible. If collectability of the principal and interest is in doubt, payments are applied to loan principal. The determination of ultimate collectability is supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's sustained historical repayment performance and other relevant factors.

Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has demonstrated a period of sustained performance, and future payments are reasonably assured. A sustained period of repayment performance generally would be a minimum of six months.

Allowance for Credit Losses

With the adoption of ASC 326, the allowance for credit losses on loans and leases ("ACL") replaces the allowance for loan and lease losses as a credit accounting estimate. The allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loans are charged off against the allowance for credit losses on loans in the period in which they are deemed uncollectible, and recoveries are credited to the allowance for credit losses on loans when received.

The Company utilizes the Weighted Average Remaining Maturity (WARM) method in determining expected future credit losses for each of the loan categories. The WARM method considers an estimate of expected credit losses over the remaining life of the financial assets and uses average annual charge-off rates to estimate the allowance for credit losses. For amortizing assets, the remaining contractual life is adjusted by the expected scheduled payments and prepayments. The average annual charge-off rate is applied to the amortization-adjusted remaining life to determine the unadjusted lifetime historical charge-off rate.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)
The Company's expected loss rate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to product or collateral type, geography, and internal risk ratings. For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis. The Company's historical look-back period ranges over a 15-year rolling period on a quarterly basis.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit–related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The current expected credit loss (CECL) methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) The nature and volume of the institutions financial assets. (ii) The existence, growth and effect of any concentrations of credit. (iii) The volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversity classified or graded assets. (iv) The value of the underlying collateral for loans that are not collateral-dependent. (v) The institution's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries. (vi) The quality of the institution's credit review function. (vii) The experience, ability and depth of the institution's lending, investment, collection, and other relevant management and staff. (viii) The effect of other external factors such as the regulatory, legal and technical environments; competition; and events such as natural disasters; and (ix) actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the institution operates that could affect the collectability of financial assets.

Management utilized national, regional and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors. The CECL estimate incorporates a reasonable and supportable economic forecast through the use of externally developed macroeconomic scenarios applied in the model. The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Company uses a 2-year reasonable and supportable forecast period in estimating the allowance for credit losses on loans. The model reverts to historic loss estimates over one year on a straight line basis.

Prior to the adoption of ASC 326 on January 1, 2023, the Company used an incurred loss model to measure the allowance for loan losses.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

Under the incurred loss model, the allowance consisted of two primary components, general reserves and specific reserves related to impaired loans. The general component covered nonimpaired loans and was based on historical losses adjusted for current factors. The historical loss experience for each loan segment was determined using actual loss history experienced by the Company and portfolio segments were weighted using peer loss rates depending on the loan portfolio segment and the extent of the Bank's historical experience in the portfolio segment. This actual loss experience was adjusted for economic factors based on the risks present for each portfolio segment. These economic factors included consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Collateral Dependent Loans

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value.

Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

Allowance for Credit Losses – Unfunded Commitments: In addition to ACL-Loans, the Company has established an ACL-Unfunded commitments, classified in other liabilities on the consolidated balance sheets. This reserve is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset 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 Company, (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 Company 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.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives of the individual assets which generally range from 3 to 10 years for furniture, fixtures, and equipment, and 39 years for buildings.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized, if lower.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling cost at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets held for sale are carried at the lower of the new cost basis or fair value less cost to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. Costs of significant asset improvements are capitalized, whereas costs relating to holding assets are expensed. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expenses.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and Other Intangible Assets

Goodwill resulting from the 2015 acquisition of Community National Bank of Northwestern Pennsylvania (CNB) is tested for impairment at least annually to determine if an impairment loss has occurred. The Company assesses qualitative and other factors in evaluating goodwill for possible impairment.

Significant judgment is applied when assessing goodwill for possible impairment, including developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparisons, incorporating general economic and market conditions, and selecting an appropriate control premium.

The core deposit intangible asset arising from the CNB acquisition was amortized on a straight-line basis over the estimated 7.5-year useful life. The core deposit intangible asset was fully amortized as of December 31, 2023.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the consolidated financial statements.

Income Taxes

The Company and Bank are currently subject only to federal income taxes. 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 recognized only if it is more likely than not that a tax position will be realized or sustained upon examination by the relevant taxing authority. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

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.

Management does not believe the Company has any significant uncertain tax positions at December 31, 2023. Tax years that remain open and subject to examination at December 31, 2023 are years 2020 – 2023.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share

Earnings per share is calculated using the weighted-average number of shares outstanding for the periods.

Comprehensive Income (Loss)

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

Advertising Costs

Advertising costs are expensed as the costs are incurred.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 13, 2024, the date the consolidated financial statements were available to be issued.

New Accounting Standard

On January 1, 2023, the Company adopted ASC 326, which is applicable to financial assets measured at amortized cost, including loans. It also applies to off-balance sheet credit exposures such as loan commitments and standby letters of credit. In addition, changes were made to the accounting for available for sale securities, which requires credit losses to be presented as an allowance rather than as a direct write-down of the available for sale securities when management does not intend to sell or believes that it is more likely than not that they will be required to sell.

The adoption of ASC 326 resulted in the Company recording an increase of $342,934 to the allowance for credit losses on loans and the establishment of an $11,000 reserve for unfunded loan commitments. A one-time, cumulative effect charge to capital for these amounts, net of tax, of $279,608 was recognized as of January 1, 2023.

On March 31, 2022, FASB issued ASU 2022-02, Financial Instruments –Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures, which eliminates the troubled debt restructuring (“TDR”), accounting model for creditors who have adopted Topic 326, Financial Instruments – Credit Losses. In addition, on a prospective basis, entities will be subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications made on or after January 1, 2023 to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan segment in the allowance for credit losses on loans. The Company adopted ASU 2022-02 effective January 1, 2023. The adoption of this standard did not have a material effect on the Company’s consolidated operating results or financial condition.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 2 SECURITIES

The amortized cost, fair value, and related gross unrealized gains and losses of securities available for sale at December 31 were as follows:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:				
Obligations of State and Political Subdivisions	$ 112,288,257	$ 14,538	$ 13,843,077	$ 98,459,718
Collateralized Mortgage Obligations	27,088,244	-	4,909,746	22,178,498
GSE Residential Mortgage-Backed	128,472,097	12,923	16,963,793	111,521,227
Total Securities Available for Sale	$ 267,848,598	$ 27,461	$ 35,716,616	$ 232,159,443
December 31, 2022				
Debt Securities:				
Obligations of State and Political Subdivisions	$ 133,795,760	$ 105,630	$ 19,106,728	$ 114,794,662
Collateralized Mortgage Obligations	29,276,765	-	4,671,476	24,605,289
GSE Residential Mortgage-Backed	126,682,822	-	18,225,273	108,457,549
Total Securities Available for Sale	$ 289,755,347	$ 105,630	$ 42,003,477	$ 247,857,500

The amortized cost and fair value of securities as of December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	Amortized Cost	Fair Value
Due in One Year or Less	$ 6,184,383	$ 5,629,198
Due After One Year through Five Years	36,343,485	32,179,252
Due After Five Years through Ten Years	65,938,561	57,272,795
Due After Ten Years	3,821,828	3,378,473
Subtotal	112,288,257	98,459,718
Collateralized Mortgage Obligations	27,088,244	22,178,498
Residential Mortgage-Backed	128,472,097	111,521,227
Total	$ 267,848,598	$ 232,159,443

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 2 SECURITIES (CONTINUED)

The following table shows the Company's unrealized losses at December 31, 2023 and 2022, that have not been recognized in income aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Less than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2023					
Obligations of State and Political Subdivisions	$ 2,786,707	$ 60,700	$ 91,850,390	$ 13,903,777	$ 13,843,077
Collateralized Mortgage Obligations	-	-	22,178,498	4,909,746	4,909,746
GSE Residential Mortgage-Backed	9,747,967	68,394	95,263,583	17,032,187	16,963,793
Total	$ 12,534,674	$ 129,094	$209,292,471	$ 35,845,710	$ 35,716,616
December 31, 2022					
Obligations of State and Political Subdivisions	$ 85,659,805	$ 13,393,905	$ 16,803,890	$ 5,712,823	$ 19,106,728
Collateralized Mortgage Obligations	10,447,045	999,449	14,158,244	3,672,027	4,671,476
GSE Residential Mortgage-Backed	41,212,389	4,597,141	62,245,143	13,628,132	18,225,273
Total	$137,319,239	$ 18,990,495	$ 93,207,277	$ 23,012,982	$ 42,003,477

At December 31, 2023, there were 239 securities in a loss position, 226 of which were in a loss position for 12 months or more. At December 31, 2022, there were 255 securities in a loss position, 119 of which were in a loss position for 12 months or more.

The Company's available for sale securities are invested in government sponsored enterprise securities, collateralized mortgage obligations, and government-sponsored enterprise residential mortgage-backed securities, including obligations of the FHLB, Government National Mortgage Association, Federal Home Loan Mortgage Association, and Federal National Mortgage Association. These securities carry the explicit and/or implicit guarantee of the U.S. government, and State and Local government, and have a long history of zero credit loss.

The Company has also invested in municipal obligations of public entities located in various states, principally Ohio and Pennsylvania. The Bank performs a quarterly stress test of the municipal bond portfolio and performs a more in-depth analysis of any securities identified for potential credit concerns.

Management believes total gross unrealized losses are attributable to changes in interest rates, relative to when the securities were purchased, and not due to the credit quality of the investment securities. The fair value of these securities typically changes as market interest rates change and as each security approaches its contractual maturity date. Because these unrealized losses are the result of customary and unexpected fluctuations in the bond market, they have not been recognized into income. Management has the intent and believes the Bank has the ability to hold the investments to maturity or for a period of time sufficient to recover the loss. The Company currently does not believe it is probable that it will be unable to collect all amounts according to the contractual terms of the investments. Therefore, the Company did not record an allowance for credit losses for these securities as of December 31, 2023.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 2 SECURITIES (CONTINUED)

The Company has invested in government sponsored enterprise securities, collateralized mortgage obligations, and government-sponsored enterprise residential mortgage-backed securities, including obligations of the FHLB, Government National Mortgage Association, Federal Home Loan Mortgage Association, and Federal National Mortgage Association. The Company has also invested in municipal obligations of public entities located in various states, principally Ohio and Pennsylvania. The Company currently does not believe it is probable that it will be unable to collect all amounts according to the contractual terms of the investments. Therefore, the Company did not record an allowance for credit losses for these securities as of December 31, 2023.

Sales of securities available for sale were as follows for the years ended December 31:

	2023	2022
Proceeds	$ 19,569,266	$ 4,858,203
Gross Gains	221,361	-
Gross Losses	147,933	92,342

The tax provision (credit) related to net realized gains (losses) on security sales was $15,420 in 2023 and ($19,392) in 2022.

Securities available for sale with carrying values approximating $65,493,000 and $73,658,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, and for other purposes as required or permitted by law.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET

Loans as of December 31 are summarized as follows:

	2023	2022
Commercial	$ 90,292,314	$ 93,724,746
Real Estate	149,604,410	156,210,570
Consumer	10,962,403	11,784,800
Premier	16,624,369	14,390,923
Other	666,579	581,051
Subtotal	268,150,075	276,692,090
Less: Allowance for Credit Losses	1,660,006	1,361,684
Loans, Net	$ 266,490,069	$ 275,330,406

The Company has elected to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable on loans amounted to $941,369 and $893,253 at December 31, 2023 and 2022 and is included in accrued interest receivable in the accompanying consolidated balance sheets.

In the normal course of business, loans are extended to directors, executive officers, and their Related business interests. These loans totaled $527,016 and $631,278 at December 31, 2023 and 2022, respectfully. There were advances of $9,809 during the year ended December 31, 2022. Repayments during the years ended December 31, 2023 and 2022 totaled $104,262 and $217,566, respectively.

The Bank grants consumer, commercial, and residential loans to customers throughout its trade area that is concentrated in Ashtabula and Lake Counties in Ohio, northwestern Pennsylvania, and Stow, Ohio. Although the Bank has a diversified loan portfolio the ability of the Bank's loan customer's to honor their repayment commitments is highly dependent upon the economic stability of the Bank's immediate trade area.

Loans to local political subdivisions represented 21% and 23% of the Bank's total loan portfolio at December 31, 2023 and 2022, respectively. These loans primarily represent general obligation bonds and leases and are included in the commercial loan portfolio segment. The Bank's ability to collect these loans is dependent upon proceeds from tax levies, in the case of revenue bonds, and upon available municipality operating funds, in the case of general obligation bonds. Municipalities are subject to general economic risks which could have an impact on the ability of their citizens to meet tax levy and other obligations to the municipality. Credit losses arising from the Bank's lending experience with political subdivisions compares favorably with the Bank's loss experience on its portfolio as a whole.

Loans serviced for other institutions totaled $27,762,517 and $26,856,323 at December 31, 2023 and 2022, respectively. These loans are not included in the Company's consolidated balance sheets.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET (CONTINUED)

The Company maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial, real estate, consumer, premier, and other with risk characteristics described as follows:

Commercial: Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators closely correlated to the credit quality of these loans.

Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most consumer loans are term loans secured by real estate, automobiles, or other personal assets. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Premier: The premier loan portfolio is comprised of home equity lines of credit secured by real estate. The risks associated with this portfolio are generally higher than other residential real estate loans as these loans are open ended and typically interest only when draws are being taken on the loans. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans as repayment is based on personal cash flow. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Other: The remaining loan portfolio consists of ready cash loans which operate as personal lines of credit and are unsecured. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET (CONTINUED)

The allowance for credit losses and recorded investment in loans is as follows:

December 31, 2023	Commercial	Real Estate	Consumer	Premier	Other	Total
Allowance for Credit Losses						
Balance - Beginning of Year	$ 517,228	$ 621,166	$ 90,891	$ 115,827	$ 16,572	$ 1,361,684
Adoption of ASC 326	(145,329)	473,416	49,496	(27,286)	(7,363)	342,934
Provision (Credit) for Credit Losses	(72,586)	44,214	1,278	(7,555)	(1,251)	(35,900)
Loans Charged-Off	-	-	(14,657)	-	-	(14,657)
Recoveries of Loans Previously Charged-Off	-	-	5,945	-	-	5,945
Balance - End of Year	$ 299,313	$ 1,138,796	$ 132,953	$ 80,986	$ 7,958	$ 1,660,006
Allowance related to collateral dependent loans	$ -	$ -	$ -	$ -	$ -	$ -
Collateral Dependent Loans	$ -	$ 108,492	$ 56,627	$ -	$ -	$ 165,119

December 31, 2022	Commercial	Real Estate	Consumer	Premier	Other	Total
Allowance for Loan Losses:						
Balance - Beginning of Year	$ 377,228	$ 724,015	$ 148,580	$ 160,827	$ 49,941	$ 1,460,591
Provision (Credit) for Loan Losses	140,000	(110,000)	(63,000)	(45,000)	(22,000)	(100,000)
Loans Charged-Off	-	(15,938)	(5,760)	(1,115)	(12,192)	(35,005)
Recoveries of Loans Previously Charged-Off	-	23,089	11,071	-	823	36,098
Balance - End of Year	$ 517,228	$ 621,166	$ 90,891	$ 115,827	$ 16,572	$ 1,361,684
Ending Balance: Individually Evaluated for Impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ 517,228	$ 621,166	$ 90,891	$ 115,827	$ 16,572	$ 1,361,684
Loans:						
Ending Balance: Individually Evaluated for Impairment	$ 275,539	$ 468,852	$ 241,006	$ 9,578	$ -	$ 994,975
Ending Balance: Collectively Evaluated for Impairment	$ 93,449,207	$ 155,741,718	$ 11,543,794	$ 14,381,345	$ 581,051	$ 275,697,115

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET (CONTINUED)

The Company utilized the WARM method in determining expected future credit losses for each of the loan categories. The WARM method considers an estimate of expected credit losses over the remaining life of the financial assets and uses average annual charge-off rates to estimate the allowance for credit losses. For amortizing assets, the remaining contractual life is adjusted by the expected scheduled payments and prepayments. The average annual charge-off rate is applied to the amortization-adjusted remaining life to determine the unadjusted lifetime historical charge-off rate.

The Company's CECL estimate applies a forecast that incorporates trends and other environmental factors. Management utilized national, regional, and local leading economic indexes, as well as managements judgement, as the basis for the forecast. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

The Company segments the portfolio into pools based on the following risk characteristics: collateral type, credit characteristics, loan origination balance, and outstanding loan balance.

In addition, the Company has established an ACL for unfunded commitments, classified in other liabilities on the consolidated statements of financial condition. This reserve is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments and is determined quarterly based on methodology similar to the methodology for determining the ACL for loans. At December 31, 2023 no ACL for unfunded commitments was necessary.

Credit for Credit Losses: The provision or credit for credit losses is determined by the Bank as the amount to be added to the ACL for various types of financial instruments including loans, investment securities, and unfunded commitment credit exposures after net charge-offs have been deducted to bring the ACL to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The following table presents the components of the credit for credit losses for the years ended December 31, 2023 and 2022:

	2023	2022
Credit for loan losses:		
Loans	$ 35,900	$ 100,000
Unfunded commitments	11,000	-
Investment securities	-	-
Total credit for credit losses	$ 46,900	$ 100,000

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET (CONTINUED)

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into four major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow, or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table is a summary of loans allocated by management's internal risk ratings

Commercial	2023	2022
Risk Rating:		
Pass	$ 92,041,099	$ 93,449,207
Special Mention	251,215	275,539
Substandard	-	-
Total	$ 92,292,314	$ 93,724,746

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET (CONTINUED)

The following table is a summary of homogeneous loans allocated by payment activity (nonperforming represents loans on nonaccrual of interest):

	Real Estate	Consumer	Premier	Other	Total
December 31, 2023					
Payment Activity:					
Performing	$ 149,495,918	$ 10,905,776	$ 16,624,369	$ 666,579	$ 177,692,642
Nonperforming	108,492	56,627	-	-	165,119
Total	$ 149,604,410	$ 10,962,403	$ 16,624,369	$ 666,579	$ 177,857,761
December 31, 2022					
Payment Activity:					
Performing	$ 155,907,149	$ 11,734,296	$ 14,390,923	$ 581,051	$ 182,613,419
Nonperforming	303,421	50,504	-	-	353,925
Total	$ 156,210,570	$ 11,784,800	$ 14,390,923	$ 581,051	$ 182,967,344

The following table presents the aging of the recorded investment in past due and nonaccrual loans:

	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
December 31, 2023					
Commercial	$ 90,292,314	$ -	$ -	$ -	$ 90,292,314
Real Estate	149,103,640	392,278	-	108,492	149,604,410
Consumer	10,826,517	79,259	-	56,627	10,962,403
Premier	16,624,369	-	-	-	16,624,369
Other	666,579	-		-	666,579
Total	$ 267,513,419	$ 471,537	$	$ 165,119	$268,150,075
December 31, 2022					
Commercial	$ 93,724,746	$ -	$ -	$ -	$ 93,724,746
Real Estate	155,699,824	207,325	-	303,421	156,210,570
Consumer	11,665,674	68,622	-	50,504	11,784,800
Premier	14,370,818	20,105	-	-	14,390,923
Other	566,342	14,709		-	581,051
Total	$ 276,027,404	$ 310,761	$ -	$ 353,925	$ 276,692,090

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 3 LOANS, NET (CONTINUED)

The amortized costs basis for loans on nonaccrual status for which there is no related allowance for credit losses was $165,119 and $353,925 as of December 31, 2023 and 2022, respectively.

The following table presents information related to impaired loans as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans With No Related Allowance Recorded:					
Commercial	$ 275,539	$ 275,539	$ -	$ 285,286	$ -
Real Estate	468,852	500,406	-	425,603	9,653
Consumer	241,006	257,230	-	247,422	11,339
Premier	9,578	9,578	-	11,605	992
Loans With an Allowance Recorded:	-	-	-	-	-
Total Impaired Loans:					
Commercial	275,539	275,539	-	285,286	-
Real Estate	468,852	500,406	-	425,603	9,653
Consumer	241,006	257,230	-	247,422	11,339
Premier	9,578	9,578	-	11,605	992
Total	$ 994,975	$ 1,042,753	$ -	$ 969,916	$ 21,984

There were no loans modified in TDR's during the year ended December 31, 2022.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. There were no modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023.

Loan interest income for the year ended December 31, 2022 includes amortization of deferred Payroll Protection Program (PPP) loan fees of $165,136. Substantially all PPP loans had been forgiven or repaid and all deferred PPP loan fees had been recognized as of December 31, 2022.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 4 PREMISES AND EQUIPMENT, NET

Premises and equipment consist of the following as of December 31:

	2023	2022
Land and Improvements	$ 3,395,423	$ 3,395,423
Building and Improvements	8,681,652	8,672,888
Furniture and Equipment	11,345,473	10,853,084
Subtotal	23,422,548	22,921,395
Less: Accumulated Depreciation	15,888,648	15,327,521
Premises and Equipment, Net	$ 7,533,900	$ 7,593,874

Depreciation of premises and equipment amounted to $595,321 in 2023 and $631,052 in 2022.

NOTE 5 CORE DEPOSIT INTANGIBLE ASSET

Amortization of the core deposit intangible asset was $45,794 in 2023 and $91,586 in 2022 and is included in other noninterest expenses in the accompanying consolidated statements of income. As of December 31, 2023 the core deposit intangible has been fully amortized.

NOTE 6 DEPOSITS

Deposits at the years ended December 31 were as follows:

	2023	2022
Noninterest-Bearing Demand	$ 140,049,738	$ 144,993,724
Interest-Bearing Demand	107,011,833	107,340,736
Savings	125,001,996	163,931,435
Money Market	50,322,780	50,981,423
Time Deposits	102,204,181	57,595,366
Total	$ 524,590,528	$ 524,842,684

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 6 DEPOSITS (CONTINUED)

Time deposits of $250,000 or more were $19,076,541 and $8,886,870 at December 31, 2023 and 2022, respectively. Scheduled maturities of time deposits at December 31, 2023 were as follows:

Year Ending December 31	Amount
2024	$ 92,042,118
2025	6,033,721
2026	2,170,939
2027	1,173,047
2028	-
Thereafter	781,356
Total	$ 102,204,181

NOTE 7 BORROWING ARRANGEMENTS

At December 31, 2023, the Company has available lines of credit with the FHLB of Cincinnati with borrowing limits aggregating $50,000,000, including $30,000,000 and $20,000,000 revolving lines. The credit lines are subject to annual renewal and incur no service charges. Outstanding borrowings under the revolving line and advances below are secured by the Company's investment in FHLB stock and a blanket security agreement on outstanding residential mortgage loans. The principal balance of advances is payable at maturity with interest payments made monthly. There were no outstanding borrowings as of December 31, 2023 and outstanding borrowings of $20,000,000 under the revolving lines of credit as of December 31, 2022.

At December 31, 2023, the Company's maximum remaining borrowing capacity with the FHLB was $94,381,840.

In February 2023, the Company entered into a credit agreement with the Federal Reserve Bank of Cleveland to borrow funds at the Discount Window. The line is subject to annual renewal and incurs no service charges. Outstanding borrowings at the Discount Window are secured by a blanket security agreement on commercial loans, multi-family loans, and residential second mortgage loans. There was no outstanding balance as of December 31, 2023. At December 31, 2023, the Company's maximum borrowing capacity with the Federal Reserve Bank was $39,553,630.

On November 18, 2021, the Company completed a private placement of $10,000,000 of subordinated notes due December 1, 2031. The notes bear interest at a fixed rate of 3.625% through December 1, 2026, after which time, until maturity, the rate will reset quarterly to an annual floating rate equal to the then-current 3-month SOFR plus 266 basis points. The notes are redeemable at the Company's option, in whole or in part, on or after December 1, 2026, but are not redeemable at the option of the holders. The balance of the notes, net of unamortized debt issuance costs amounted to $9,852,368 as of December 31, 2023 and $9,800,438 as of December 31, 2022. Amortization of debt issuance costs, which is included in interest expense, amounted to $51,930 in 2023 and 2022. Future amortization of debt issuance costs is $51,930 in 2024 and 2025, and $43,772 in 2026.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 8 EMPLOYEE AND DIRECTOR BENEFITS

The Company sponsors an ESOP for the benefit of employees who meet the eligibility requirements of the ESOP, including attaining age 21. Participants are permitted to make contributions through salary reductions, up to statutory limits. The Company matches 100% of the participant's contributions up to 6% of compensation. The Company makes these matching cash contributions to the ESOP on a per pay basis. The Company also makes safe harbor contributions equal to 3% of the employee's compensation. Notwithstanding these matching contributions, Company contributions must also be sufficient to meet the payment conditions of any ESOP loan obligations that cannot be met with available funds of the ESOP. The Company also makes contributions to the ESOP for the payment of interest on any outstanding loans. As contributions are made to the ESOP to repay loans, shares are released and allocated among active participants in the ESOP. Matching contributions made by the Company amounted to $246,132 and $219,779 in 2023 and 2022, respectively. Safe harbor contributions amounted to $146,995 and $139,612 in 2023 and 2022, respectively.

Shares purchased with the proceeds from any loan where the shares are pledged as collateral, are reported as unearned ESOP shares in the consolidated balance sheet. As shares are released from collateral, the Company reports compensation expense equal to the fair value of the shares, and the shares become outstanding for earnings per share computations.

Shares held by the ESOP as of December 31 were as follows:

	2023	2022
Beginning Allocated Shares	173,683	192,846
Shares Repurchased	(13,521)	(37,316)
Shares Released for Allocation	20,310	18,153
Ending Allocated Shares	180,472	173,683
Unreleased Shares	117,323	124,112
Total ESOP Shares	297,795	297,795
Fair Value of Unearned Shares	$ 2,463,783	$ 2,544,296
Fair Value of Allocated Shares Subject to Repurchase Obligation	$ 3,789,912	$ 3,560,502

In addition to the ESOP, the Company also provides other benefits to certain officers, as well as directors, including a phantom stock plan and supplemental retirement benefits. Supplemental retirement benefits include split-dollar life insurance arrangements for certain officers and directors to provide for supplemental retirement and death benefits. The Company's liability for estimated benefits under the phantom stock plan and supplemental retirement arrangements amounted to $856,565 and $957,699 as December 31, 2023 and 2022, respectively. Payments made to former directors under the phantom stock plan amounted to $83,140 in 2023 and $107,276 in 2022.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 9 INCOME TAXES

The provision for income taxes for the years ended December 31 consists of the following:

	2023	2022
Federal:		
Current	$ 365,356	$ 158,891
Deferred	(224,226)	44,498
Total	$ 141,130	$ 203,389

The provision for federal income taxes differed from the amounts computed by applying the U.S. federal income tax rate of 21% to earnings before federal income taxes as a result of the following:

	2023	2022
Provision at Statutory Rate	$ 823,100	$ 1,066,000
Tax Exempt Interest on State and Municipal Securities and Political Subdivision Loans	(642,500)	(831,600)
Bank-Owned Life Insurance	(44,300)	(36,000)
Deductible Dividends Paid to ESOP	(46,900)	(46,600)
Other	51,730	51,589
Income Tax Provision	$ 141,130	$ 203,389

The deferred income tax credit of $224,226 in 2023 and provision of $44,498 in 2022 resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities as of December 31 were as follows:

	2023	2022
Deferred Tax Assets:		
Allowance for Credit Losses	$ 268,700	$ 206,300
Deferred Compensation	179,900	201,100
Unrealized Loss on Available for Sale Securities	7,494,723	8,798,548
Other, Net	2,277	1,952
Total	7,945,600	9,207,900
Deferred Tax Liabilities:		
Business Combination	-	9,600
FHLB Stock Dividend	64,800	208,000
Deferred Loan Fees	112,000	127,600
Premises and Equipment	296,800	307,800
Prepaid Expenses	40,000	43,300
Total	513,600	696,300
Net Deferred Tax Asset	$ 7,432,000	$ 8,511,600

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 9 INCOME TAXES (CONTINUED)

Net deferred tax assets and net deferred tax liabilities are included in other assets and other liabilities, respectively in the accompanying consolidated balance sheets.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Therefore, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2023 and 2022.

NOTE 10 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

At December 31, 2023 and 2022, the following financial instruments whose contract amount represents credit risk were approximately as follows:

	2023	2022
Unfunded Commitments to Extend Credit	$ 50,261,728	$ 46,320,773
Standby Letters of Credit	164,400	284,999
Total	$ 50,426,128	$ 46,605,772

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank was not required to perform on any financial guarantees and did not incur any losses on its commitments during the past two years.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 11 REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a 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 measure of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and the classifications are also subject to qualitative judgment by the regulator in regard to components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1, Tier 1, and Total Capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 Capital (as defined) to average assets (as defined). Management believes as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank believes it meets all of the fully phased-in Basel III capital requirements.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 11 REGULATORY MATTERS (CONTINUED)

The following table reflects the capital ratios and minimum requirements as of December 31:

	Actual		Minimum Capitalized Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	$ 54,308	22.8%	$ 19,061	8.0%	$ 25,017	10.5%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	52,858	22.2%	10,722	4.5%	16,678	7.0%
Tier I Capital (to Risk-Weighted Assets)	52,858	22.2%	14,296	6.0%	20,252	8.5%
Tier I Capital (to Average Assets)	52,858	9.8%	21,659	4.0%	32,489	6.0%
December 31, 2022						
Total Capital (to Risk-Weighted Assets)	$ 51,621	21.3%	$ 19,349	8.0%	$ 25,396	10.5%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	50,529	20.8%	10,884	4.5%	16,930	7.0%
Tier I Capital (to Risk-Weighted Assets)	50,259	20.8%	14,512	6.0%	20,558	8.5%
Tier I Capital (to Average Assets)	50,259	8.9%	22,588	4.0%	33,882	6.0%

NOTE 12 REGULATORY RESTRICTIONS

The Federal Reserve Bank may require the Company to maintain certain reserve balances. As of December 31, 2023 and 2022, the Company had no cash reserve requirements.

By regulation, banks are limited in the amount of retained earnings available for the payment of dividends. These limitations generally restrict dividend payments to current and prior two years' retained earnings without prior regulatory approval. In addition, banks are precluded from paying dividends that would reduce regulatory capital below established minimums. As of December 31, 2023, the Company was not precluded from making normal dividend payments from the more restrictive of the two limitations.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 13 FAIR VALUE MEASUREMENTS

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Certain financial assets and liabilities are measured at fair value on a recurring basis while others are measured on a nonrecurring basis. Subsequent to initial recognition, the Company may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

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.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial and nonfinancial 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:

	Level 1	Level 2	Level 3	Total
December 31, 2023				
Recurring:				
Available-for-Sale Securities:				
Obligations of State and Political Subdivisions	$ -	$ 98,459,718	$ -	$ 98,459,718
Collateralized Mortgaged Obligations	-	22,178,498	-	22,178,498
GSE Residential Mortgage-Backed	-	111,521,227		111,521,227
Total Recurring	$ -	$ 232,159,443	$	$ 232,159,443
December 31, 2022				
Available-for-Sale Securities:				
Debt Securities:				
Obligations of State and Political Subdivisions	$	$ 114,794,662	$ -	$ 114,794,662
Collateralized Mortgaged Obligations		24,605,289		24,605,289
GSE Residential Mortgage-Backed		108,457,549	-	108,457,549
Total Debt Securities	$	$ 247,857,500	$ -	$ 247,857,500

Any impaired loans at December 31, 2022 with an assigned specific reserve were measured at fair value determined based on the carrying amount of the loan net of any related specific reserves. There were no specific reserves allocated as of December 31, 2022.

Following is a description of the valuation methodologies used for significant instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

When available, the Company uses quoted market prices to determine the fair value of investment securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's investments in government agencies, residential mortgage-backed securities, and obligations of states and political subdivisions for which quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds for which no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Available-for-Sale Securities (Continued)

Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans was estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represented loans for which the fair value of the expected repayments or collateral exceeded the recorded investments in such loans. Impaired loans for which an allowance was established based on the fair value of collateral required classification in the fair value hierarchy. Collateral values for impaired loans were estimated using Level 2 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represented specific valuation allowance and writedowns during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

The Company'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 Company'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.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

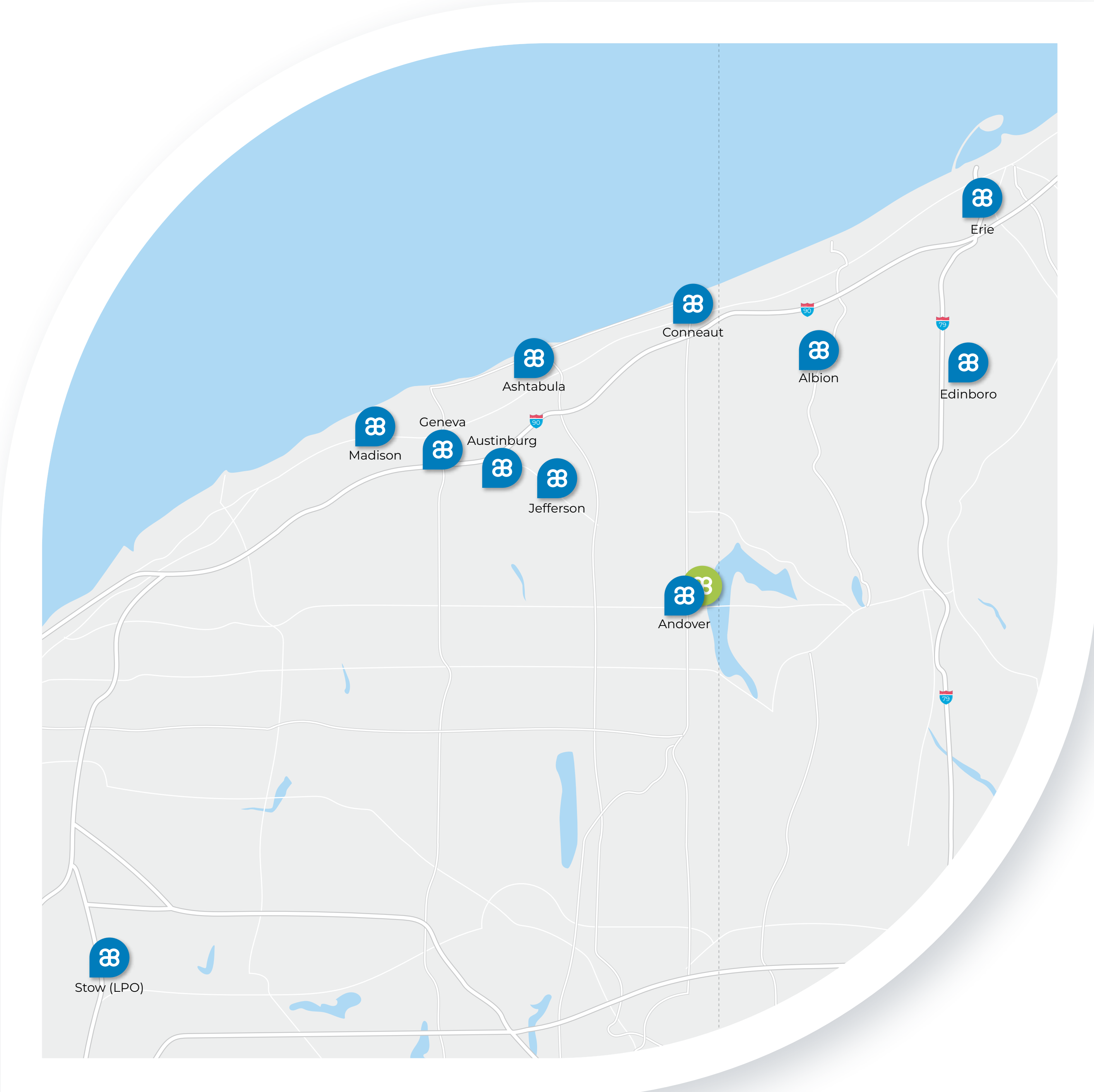
NOTE 14 REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized in the noninterest income category.

A description of the Company’s revenue streams accounted for under ASC 606 follows:

Customer Service Fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include automated teller machine (ATM) use fees, stop-payment charges, late fees on loans, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit Card Fee Income – The Company earns interchange fees from debit cardholder transactions conducted through the Visa and Mastercard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.



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Quick Facts

139
YEARS IN BUSINESS

62
AFFILIATED COMMUNITY ORGANIZATIONS

101
EMPLOYEES

OVER
14,000
HOUSEHOLDS SERVED

4,049,208 Digital Transactions — 3.6%

6,980 Mobile Users — 6.2%

11,259 Online Users — 3.8%

19,163 Mobile Deposits — 1.4%

Corporate Headquarters

600 East Main Street
Andover, OH 44003

ab Investment Services

1853 State Route 45
Austinburg, OH 44010

Stock Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
www.astfinancial.com
800.937.5449

Banking Centers

ALBION
53 East State Street
Albion, PA 16401

ANDOVER
19 Public Square
Andover, OH 44003

ASHTABULA
1630 West 19th Street
Ashtabula, OH 44004

AUSTINBURG
1853 State Route 45
Austinburg, OH 44010

CONNEAUT
339 State Street
Conneaut, OH 44030

EDINBORO
212 Plum Street
Edinboro, PA 16412

GENEVA
665 South Broadway
Geneva, OH 44041

JEFFERSON
150 North Chestnut Street
Jefferson, OH 44047

MADISON
6611 North Ridge Road
Madison, OH 44057

MILLCREEK
2420 Zimmerly Road
Erie, PA 16506

STOW LPO
3924 Clock Pointe Trail, Ste. 101
Stow, OH 44224

Andover Bank

www.andover.bank 844.259.5473