



**VISION IN  
ACTION.**

**GROWTH WITH  
PURPOSE.**

2025 ANNUAL REPORT



Andover Bank

A SUBSIDIARY OF ANDOVER BANCORP, INC.

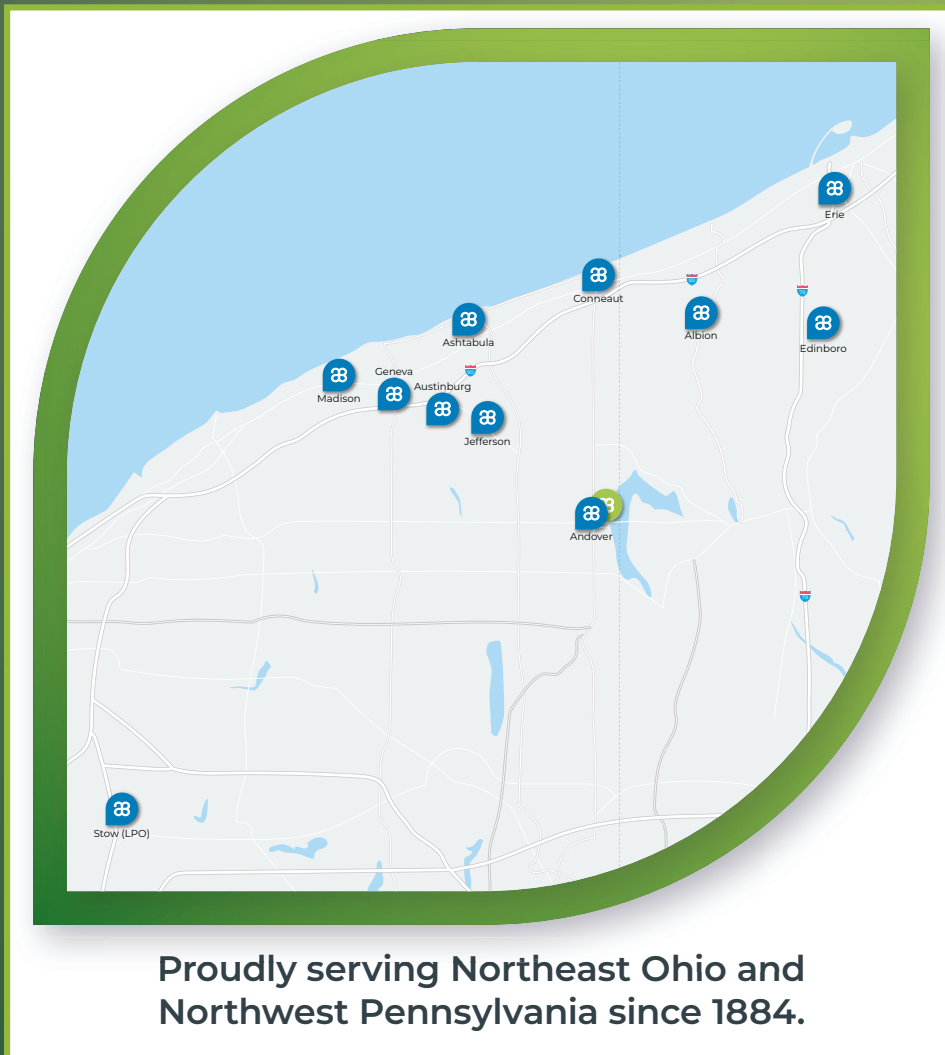
# Mission Statement

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.



**Proudly serving Northeast Ohio and  
Northwest Pennsylvania since 1884.**

2025 ANNUAL REPORT  
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## Message from the President

Dear Fellow Shareholders,

On behalf of the board of directors of Andover Bancorp, Inc. and the employees of Andover Bank, I am honored to report on our strong operating performance in 2025, our 141st year in operation.

The economic headwinds that banks faced over the past few years moderated in 2025 as the Federal Reserve Bank lowered short-term interest rates from their post-pandemic highs. This moderation caused the yield curve to normalize, ending what has been the longest rate inversion in modern US financial history. This traditional

rate environment is more conducive to our “spread” banking model of lending at a higher rate than what we pay on our deposits.

In review of our operating performance for 2025, our net income of \$4,378,866 was higher than last year’s net income of \$3,157,449, for an increase of \$1,221,417, or 39%. Earnings per share were \$2.17, compared to \$1.53 for 2024. Earnings growth was powered primarily by the expanding net interest margins caused by the interest rate changes previously mentioned and robust loan originations, led by our Stow Loan Production Office (LPO).

I am incredibly pleased to report record growth in our balance sheet for 2025. In comparing the change in the balance sheet from 2024, total assets increased by \$21.5 million to a record of \$587 million, or 3.8%, total deposits increased by \$11 million to a record of \$544.3 million, or 2%, and net loans increased by \$9.8 million to \$273.2 million, or 3.7%. Strong balance sheet growth was propelled by our strength in

core transactional deposits that are highly valued in the banking industry. We also achieved record growth in small business loans for the 3rd time in 4 years, with total originations exceeding the \$30 million mark.

Stockholders’ equity increased by \$10.8 million, or 61% to \$28.5 million, and was positively impacted by an increase in the market value of our securities portfolio caused by the declining market interest rates. The bank remains well-capitalized as our capital ratios remain well above the regulatory capital requirements. Asset quality also remains strong, as our total delinquency remains well below 1%, and our net charge-offs on a loan portfolio of \$273 million were approximately \$30,000. These results compare favorably to our peer group and continue to indicate the bank operates in a safe and sound manner.

I am pleased to report that 2025 marked the 43rd consecutive year the bank has paid a record dividend. This performance remains unmatched in the State of

Ohio and demonstrates the long-term financial strength and stability of Andover Bank. Total dividends declared for 2025 were \$0.76 per share, compared to \$0.755 per share in 2024. Since 2020, the bank has returned over \$16 million to shareholders in the form of cash dividends or market share repurchases. These actions serve to validate the Board's confidence in our business model and our continued efforts to enhance shareholder value.

We continue to execute on our strategic initiatives. As mentioned in our mid-year 2025 report, we hired two very seasoned, professional lenders from the greater Pittsburgh area who had a very productive year working from their homes. We plan to open our 2nd Loan Production Office in that area by mid-year 2026. This strategy remains consistent with our efforts to grow and refine our small business banking program to complement our strong relationship-based retail franchise. We remain optimistic that this geographical expansion will provide excellent growth

opportunities for years to come. These efforts exemplify our strategic theme for the past year: **Vision in action. Growth with purpose.**

It is always a pleasure for me to highlight the bank's accomplishments, and this year is no exception. Banks are rated under the Community Reinvestment Act (CRA) on how they meet the credit needs of the communities they serve. I am honored to announce that the bank has once again received an outstanding CRA rating from our 2025 performance evaluation conducted by the Federal Reserve Bank of Cleveland. This rating matches well with our mission statement commitment to strengthening the communities we serve. The bank also received the The Star Beacon's Reader's Choice Award as Ashtabula County's best bank for the 4th year in a row. Finally, we were again recognized as a Bauer 5-Star rated bank. Bauer Financial is an independent firm that evaluates financial institutions based on factors like capital adequacy, profitability, and asset quality, signifying that

Andover Bank is among the strongest and most financially stable banks in the country.

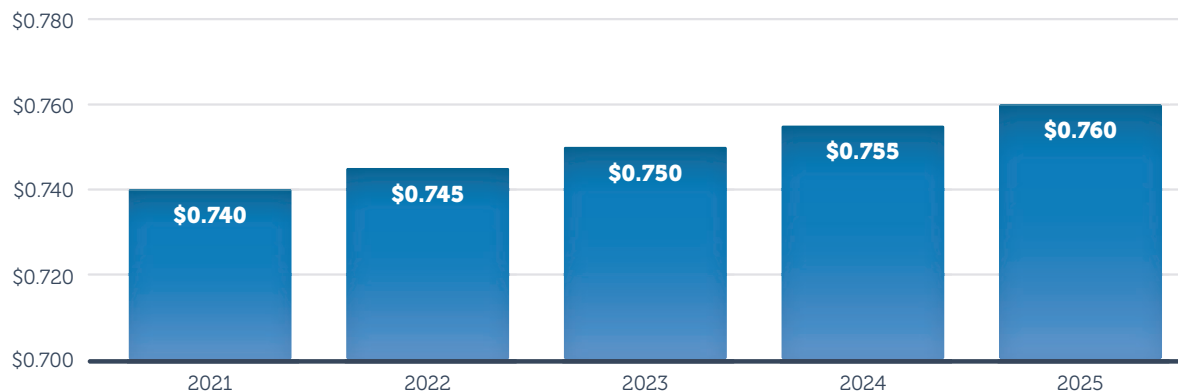
Our continued success is based on the principled business philosophies set by our Board of Directors, who provide steadfast vision and leadership, our greatest asset, our employees, who continue to exceed expectations, and you, our shareholders, for your continued confidence and support of your local independent community bank.



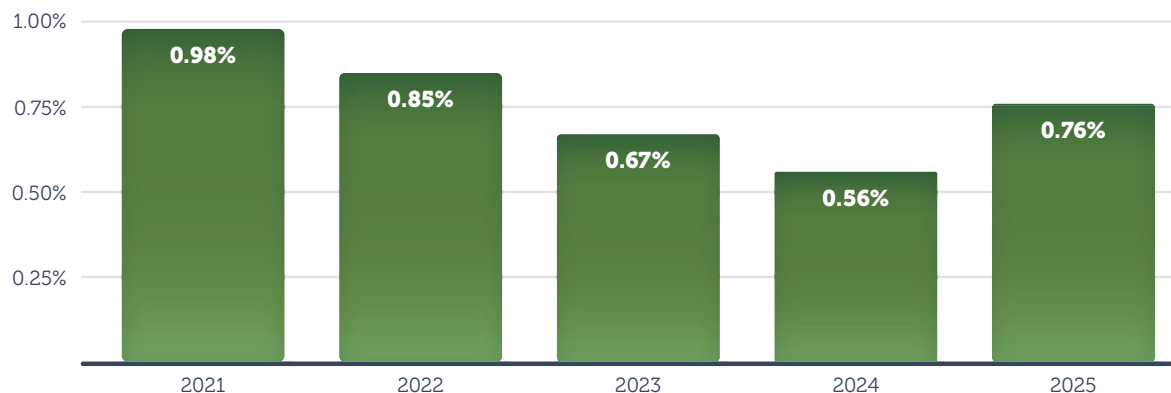
Stephen E. Varckette  
President

# Financial Charts

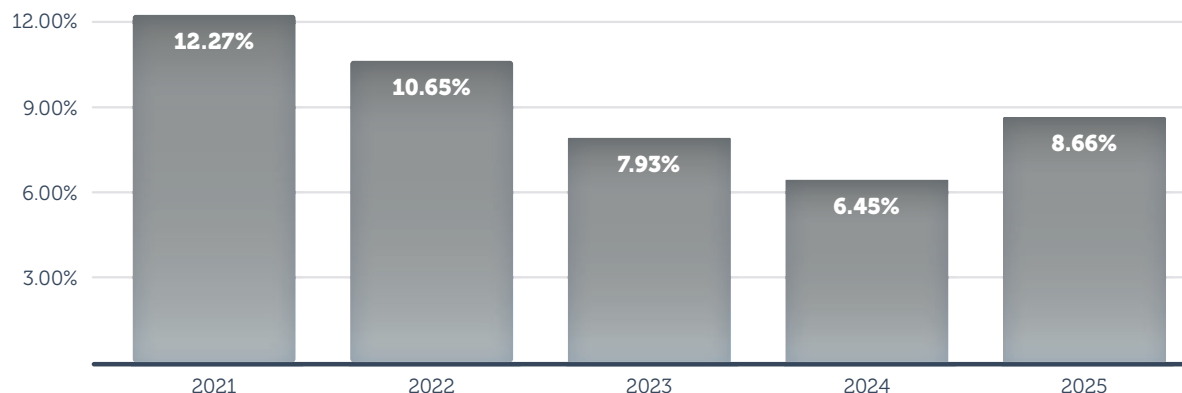
**Annual Dividends Per Share**  
Dollars Per Share



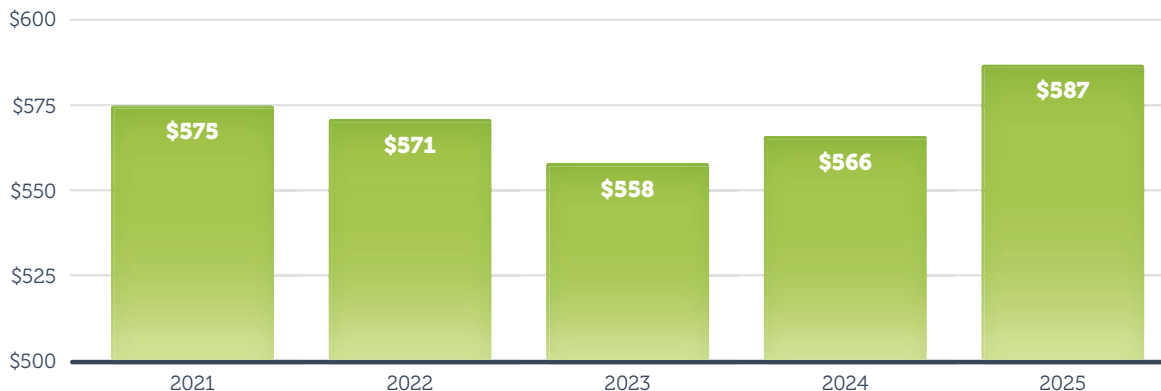
**Return on Average Assets**  
Return Percentage



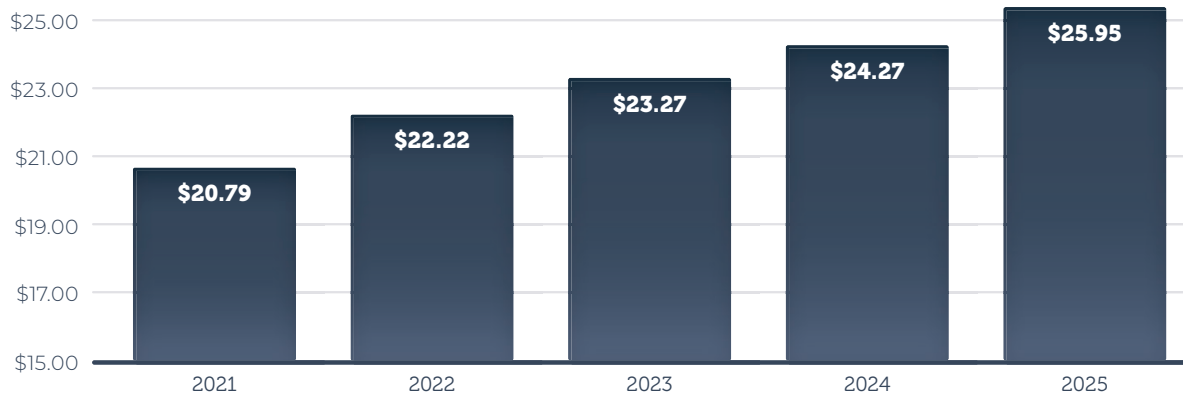
**Return on Average Equity (Excluding AOCI/AOCL)**  
Return Percentage



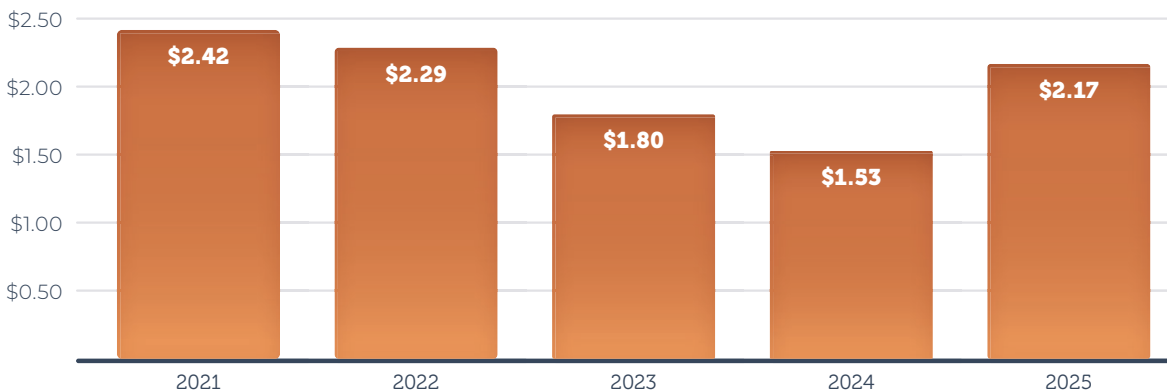
**AB** **Total Assets**  
Millions of Dollars



**AB** **Book Value Per Share (Excluding AOCI/AOCL)**  
Dollars Per Share



**AB** **Net Earnings Per Share**  
Dollars Per Share



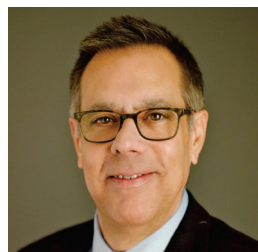
# Board of Directors, Executive Officers & Officers of Andover Bank

## BOARD OF DIRECTORS\*



**Martin R. Cole**

Chairman of  
Andover Bank  
Retired CEO



**Stephen E. Varquette**

President and CEO  
of Andover Bank



**Stuart W. Cordell**

President and CEO,  
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  
(Ret.)**

Retired Partner,  
S.R. Snodgrass, CPAs



**Andrea L. Morris**

Vice President  
and Director,  
Great Lakes Power



**Dr. Edward J. Pollander  
(Ret.)**

Retired Family Dentist,  
Andover, OH



**Dr. Trista S. Warren**

Consultant, Real Estate  
Manager, Realtor  
and Writer

**DIRECTOR  
EMERITUS  
Robert L. Taylor**

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

## EXECUTIVE OFFICERS\*\*

**Stephen E. Varquette**

President and Chief  
Executive Officer

**Richard B. Kotila**

Executive Vice President,  
General Counsel,  
and Secretary

**Kimberly A. Giddings**

Senior Vice President,  
Operations

**Brenda R. Sanford**

Senior Vice President,  
Human Resources

**Sean C. Dockery**

Executive Vice President,  
Chief Banking Officer

**Edward B. Debevec**

Senior Vice President and  
Chief Financial Officer

**Christie K. Joslin**

Senior Vice President and  
Chief Financial Officer

**Daniel J. Weber**

Senior Vice President,  
Chief Credit Officer

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

## OFFICERS

**Ty E. Amey**

Vice President and  
Market Leader,  
Commercial Banking

**Cheryl L. Fink**

Community Sales  
Manager, Millcreek

**Andrew M. Marvin**

Assistant Vice President  
of Operations

**Benjamin A. Rivera**

Human Resources  
Manager

**Cathleen A. Square**

Vice President and  
Market Leader,  
Commercial Banking

**Suzanne M. Barstow**  
Loan Processing Manager

**David C. Gregory**  
Compliance Manager

**Antonio J. Massucci**  
Controller

**James S. Savel, Jr.**  
Assistant Vice President  
and Community  
Sales Manager,  
Austinburg & Geneva

**Timothy J. Stroud, Sr.**  
Assistant Vice President  
and Community Sales  
Manager, Ashtabula

**Timothy A. Birth**  
Vice President,  
Retail Banking

**Marc D. Hanneman**  
Vice President,  
Investment Services

**Michael A. Picone**  
Lead Credit Analyst

**Katrina L. Port**  
Loan Servicing Manager

**Eric G. Senior**  
Vice President,  
Mortgage Loan Officer

**Jamie L. Stover**  
Assistant Vice President  
and Retail Operations  
Coordinator

**Diane M. Brunell**  
Community Sales  
Manager, Andover

**Brian M. Hoyt**  
Community Sales  
Manager, Madison

**James G. Raabe**  
Community Sales  
Manager, Conneaut

**Paul W. Skerlong**  
Vice President,  
Mortgage Leader

**Todd A. Urmson**  
Mortgage Loan Officer

**Jessica M. Cunningham**  
Community Sales  
Manager, Jefferson

**Steven C. Lombard**  
Vice President  
and Community  
Sales Manager,  
Albion & Edinboro

**Spencer L. Ritchey**  
Vice President,  
Commercial Banking

**Steve C. Vennare**  
Vice President,  
Commercial Banking

# Independent Auditors' Report



CliftonLarsonAllen LLP  
CLAAconnect.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 consolidated financial statements of Andover Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2025 and 2024, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Andover Bancorp, Inc. and Subsidiary as of December 31, 2025 and 2024, 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.

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

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

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

## Independent Auditors' Report, continued

### ***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 Andover Bancorp, Inc. and Subsidiary'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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Maumee, Ohio  
March 3, 2026

## Consolidated Balance Sheets

December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>ASSETS</b>		
Cash and Due from Banks	\$ 26,694,261	\$ 12,721,969
Interest-Bearing Deposits in Banks	1,467,025	104,149
Total Cash and Cash Equivalents	<u>28,161,286</u>	<u>12,826,118</u>
Available for Sale Debt Securities at Fair Value	256,326,830	257,897,463
Loans, Net	273,213,755	263,441,712
Premises and Equipment, Net	6,998,844	7,187,634
Restricted Investment in Stock	1,041,221	885,821
Bank-Owned Life Insurance	9,071,574	8,872,894
Accrued Interest Receivable	2,140,242	2,167,368
Goodwill	2,654,074	2,654,074
Other Assets	<u>7,452,537</u>	<u>9,647,203</u>
Total Assets	<u>\$ 587,060,363</u>	<u>\$ 565,580,287</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-Bearing	\$ 145,041,182	\$ 136,483,548
Interest-Bearing	399,224,579	396,744,154
Total Deposits	<u>544,265,761</u>	<u>533,227,702</u>
Subordinated Debt, Net	9,956,227	9,904,297
Accrued Interest Payable	798,122	888,397
Other Liabilities	<u>3,587,476</u>	<u>3,868,062</u>
Total Liabilities	558,607,586	547,888,458
<b>STOCKHOLDERS' EQUITY</b>		
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	73,227,089	70,376,669
Unearned Employee Stock Ownership Plan Shares	(2,144,740)	(2,425,491)
Treasury Stock, at Cost, 1,264,737 Shares in 2025 and 1,221,628 Shares in 2024	(21,785,725)	(20,957,088)
Accumulated Other Comprehensive Loss	<u>(23,253,849)</u>	<u>(31,712,263)</u>
Total Stockholders' Equity	<u>28,452,777</u>	<u>17,691,829</u>
Total Liabilities and Stockholders' Equity	<u>\$ 587,060,363</u>	<u>\$ 565,580,287</u>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Income

December 31, 2025 and 2024

	2025	2024
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans, Including Fees	\$ 13,704,639	\$ 12,223,363
Debt Securities:		
Taxable	5,418,841	4,692,064
Tax-Exempt	2,534,615	2,504,167
Other	709,030	964,311
Total Interest and Dividend Income	<u>22,367,125</u>	<u>20,383,905</u>
<b>INTEREST EXPENSE</b>		
Deposits	5,722,150	5,524,779
Borrowings	492,224	460,560
Total Interest Expense	<u>6,214,374</u>	<u>5,985,339</u>
<b>NET INTEREST INCOME</b>	16,152,751	14,398,566
<b>PROVISION (CREDIT) FOR CREDIT LOSSES</b>	<u>5,701</u>	<u>(35,400)</u>
<b>NET INTEREST INCOME AFTER CREDIT FOR CREDIT LOSSES</b>	16,147,050	14,433,966
<b>NONINTEREST INCOME</b>		
Customer Service Fees	1,564,529	1,509,876
Debit Card Fee Income	1,434,993	1,417,343
Earnings on Bank-Owned Life Insurance	198,680	196,369
Mortgage Servicing Fee Income	17,998	21,322
Net Gain on Sale of Loans	117,195	80,938
Other	557,727	558,929
Total Noninterest Income	<u>3,891,122</u>	<u>3,784,777</u>
<b>NONINTEREST EXPENSES</b>		
Salaries and Employee Benefits	7,398,727	6,908,683
Occupancy	927,634	919,760
Furniture and Equipment	1,253,237	1,167,214
ATM Fees	1,045,950	899,195
Postage and Freight	175,179	214,013
Data Processing Fees	1,589,612	1,749,969
Supplies	243,308	252,744
Telephone	108,414	107,422
Loan and Other Real Estate Expense	362,369	295,091
Advertising	380,309	362,479
Professional Fees	729,683	581,525
FDIC Assessment Expense	280,279	249,084
State Franchise Tax	118,333	140,000
Other	1,013,526	1,095,978
Total Noninterest Expenses	<u>15,626,560</u>	<u>14,943,157</u>
<b>INCOME BEFORE INCOME TAXES</b>	4,411,612	3,275,586
<b>INCOME TAX EXPENSE</b>	<u>32,746</u>	<u>118,137</u>
<b>NET INCOME</b>	<u>\$ 4,378,866</u>	<u>\$ 3,157,449</u>
<b>EARNINGS PER COMMON SHARE</b>	<u>\$ 2.17</u>	<u>\$ 1.53</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<u>2,014,334</u>	<u>2,057,286</u>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income (Loss)

December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>NET INCOME</b>	\$ 4,378,866	\$ 3,157,449
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<b>Available for Sale Debt Securities:</b>		
Unrealized Holding Gains (Losses)	10,706,853	(4,452,950)
Income Tax Expense (Benefit)	<u>2,248,439</u>	<u>(935,119)</u>
Total Other Comprehensive Income (Loss)	<u>8,458,414</u>	<u>(3,517,831)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 12,837,280</u>	<u>\$ (360,382)</u>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Stockholders' Equity

December 31, 2025 and 2024

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Accumulated Other Comprehensive Loss	Total
<b>BALANCE - DECEMBER 31, 2023</b>	\$ 814,238	\$ 1,595,764	\$ 68,767,347	\$ (2,700,143)	\$ (20,001,487)	\$ (28,194,432)	\$ 20,281,287
Net Income	-	-	3,157,449	-	-	-	3,157,449
Other Comprehensive Loss	-	-	-	-	-	(3,517,831)	(3,517,831)
Cash Dividends Declared (\$0.755 Per Share)	-	-	(1,548,127)	-	-	-	(1,548,127)
Purchase of Treasury Stock, 48,108 Shares	-	-	-	-	(955,601)	-	(955,601)
Release of Earned ESOP Shares	-	-	-	533,260	-	-	533,260
Repurchase of ESOP Shares	-	-	-	(258,608)	-	-	(258,608)
<b>BALANCE - DECEMBER 31, 2024</b>	814,238	1,595,764	70,376,669	(2,425,491)	(20,957,088)	(31,712,263)	17,691,829
Net Income	-	-	4,378,866	-	-	-	4,378,866
Other Comprehensive Income	-	-	-	-	-	8,458,414	8,458,414
Cash Dividends Declared (\$0.76 Per Share)	-	-	(1,528,446)	-	-	-	(1,528,446)
Purchase of Treasury Stock, 43,109 Shares	-	-	-	-	(828,637)	-	(828,637)
Release of Earned ESOP Shares	-	-	-	535,539	-	-	535,539
Repurchase of ESOP Shares	-	-	-	(254,788)	-	-	(254,788)
<b>BALANCE - DECEMBER 31, 2025</b>	<u>\$ 814,238</u>	<u>\$ 1,595,764</u>	<u>\$ 73,227,089</u>	<u>\$ (2,144,740)</u>	<u>\$ (21,785,725)</u>	<u>\$ (23,253,849)</u>	<u>\$ 28,452,777</u>

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

December 31, 2025 and 2024

	2025	2024
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 4,378,866	\$ 3,157,449
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	651,658	657,979
Provision (Credit) for Loan Losses	5,701	(35,400)
Net Amortization on Debt Securities	760,826	801,585
Gain on Sale of Loans	(117,195)	(80,938)
Earned ESOP Shares	535,539	533,260
Deferred Tax Benefit (Credit)	2,561	(127,880)
Earnings on Bank-Owned Life Insurance	(198,680)	(196,369)
Gain on Sale of Premises and Equipment	-	(9,827)
Decrease (Increase) in Accrued Interest Receivable	27,126	(78,233)
Increase (Decrease) in Accrued Interest Payable	(90,275)	325,762
Decrease (Increase) in Other Assets	(56,334)	(364,722)
Increase (Decrease) in Other Liabilities	(280,586)	1,145,460
Net Cash Provided by Operating Activities	<u>5,619,207</u>	<u>5,728,126</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Activity in Available-for-Sale Debt Securities:		
Purchases	(13,612,306)	(49,862,023)
Maturities, Prepayments, and Calls	25,128,966	18,869,468
Proceeds from Redemption of Restricted Stock	466,200	315,700
Net Increase in Loans Receivable	(9,660,549)	3,164,695
Purchases of Premises and Equipment	(410,938)	(261,957)
Proceeds from Sale of Premises and Equipment	-	12,000
Purchase of Restricted Stock	(621,600)	(303,350)
Net Cash Provided (Used) by Investing Activities	<u>1,289,773</u>	<u>(28,065,467)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Increase (Decrease) in Deposits	11,038,059	8,637,174
Dividends Paid	(1,528,446)	(1,558,033)
Cash Provided to ESOP for Purchase of Shares	(254,788)	(258,608)
Purchase of Treasury Stock	(828,637)	(955,601)
Net Cash Provided (Used) by Financing Activities	<u>8,426,188</u>	<u>5,864,932</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	15,335,168	(16,472,409)
Cash and Cash Equivalents - Beginning of Year	<u>12,826,118</u>	<u>29,298,527</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 28,161,286</u>	<u>\$ 12,826,118</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Interest Paid on Deposits and Borrowed Funds	<u>\$ 6,304,649</u>	<u>\$ 5,607,648</u>
Income Taxes Paid	<u>\$ 340,000</u>	<u>\$ 165,000</u>

See accompanying Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Nature of Operations**

Andover Bancorp, Inc. (the Holding 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. During 2024, the Bank formed an investment subsidiary, AB Investment Subsidiary, Inc., to hold certain loans and investments.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Holding Company and the 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 debt 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 47% residential real estate mortgage loans, 38% commercial and commercial real estate loans, and 15% consumer and other loans at December 31, 2025.

### **Debt Securities**

Debt 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 debt securities are determined using the specific identification method on the trade date based on the amortized cost of the debt security sold and are included in noninterest income.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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

### Debt Securities (Continued)

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, the amortization period is shortened to the earliest call date.

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 debt security before recovery of its amortized cost basis. If either of these criteria is met, the debt 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 debt security, and adverse conditions specifically related to the debt 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 debt security are compared to the amortized cost basis of the debt 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.

As of December 31, 2025 and 2024, no allowance for credit losses was required for available for sale debt 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.

### 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 credit losses on loans, 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.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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

### Loans (Continued)

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 collectibility of the principal and interest is in doubt, payments are applied to loan principal. The determination of ultimate collectibility 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

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.

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.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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

### Allowance for Credit Losses (Continued)

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 institution's 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 adversely 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 two-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.

### 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.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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

### **Collateral Dependent Loans (Continued)**

Collateral dependent commercial real estate loans, both owner occupied and nonowner 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.

### **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.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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

### 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 on loans. 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.

### Goodwill

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.

### 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 is 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.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

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

### Income Taxes (Continued)

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, 2025. Tax years that remain open and subject to examination at December 31, 2025 are years 2022 – 2025.

### 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 debt 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.

### Recently Adopted Accounting Standard

In November 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which enhances income tax disclosure requirements. The amendments expand disclosures related to the rate reconciliation, income taxes paid, and pretax income by jurisdiction. The Corporation adopted ASU 2023-09 effective January 1, 2025. The adoption of this guidance affected only the Corporation's income tax disclosures and had no impact on its consolidated financial statements.

### Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 3, 2026, the date the consolidated financial statements were available to be issued.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 2 DEBT SECURITIES

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

	2025			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<u>Debt Securities Available for Sale</u>				
Obligations of State and Political Subdivisions	\$ 108,230,379	\$ 2,826	\$ 11,856,776	\$ 96,376,429
Collateralized Mortgage Obligations	74,462,479	6,054	4,152,598	70,315,935
GSE Residential Mortgage-Backed	103,069,224	45,792	13,480,550	89,634,466
Total Securities Available for Sale	<u>\$ 285,762,082</u>	<u>\$ 54,672</u>	<u>\$ 29,489,924</u>	<u>\$ 256,326,830</u>

	2024			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<u>Debt Securities Available for Sale</u>				
Obligations of State and Political Subdivisions	\$ 110,885,062	\$ 513	\$ 16,680,435	\$ 94,205,140
Collateralized Mortgage Obligations	70,689,879	11,531	5,413,481	65,287,929
GSE Residential Mortgage-Backed	116,464,627	14,304	18,074,537	98,404,394
Total Securities Available for Sale	<u>\$ 298,039,568</u>	<u>\$ 26,348</u>	<u>\$ 40,168,453</u>	<u>\$ 257,897,463</u>

The amortized cost and fair value of debt securities as of December 31, 2025, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the debt securities may be called or prepaid with or without any penalties.

	Amortized Cost	Fair Value
<u>Debt Securities Available for Sale Maturing in:</u>		
One Year or Less	\$ 4,453,950	\$ 3,842,671
After One Year Through Five Years	66,998,893	59,408,394
After Five Years Through Ten Years	25,787,470	23,217,666
After Ten Years	10,990,066	9,907,698
Subtotal	108,230,379	96,376,429
Mortgage-Backed Securities - GSE Residential Collateralized Mortgage Obligations	103,069,224	89,634,466
	74,462,479	70,315,935
Total	<u>\$ 285,762,082</u>	<u>\$ 256,326,830</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 2 SECURITIES (CONTINUED)

The following table shows the Company's unrealized losses at December 31, 2025 and 2024, that have not been recognized in income aggregated by investment category and length of time that individual debt securities have been in a continuous loss position:

	Less than 12 Months		Over 12 Months		Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>December 31, 2025</b>					
<u>Debt Securities Available for Sale</u>					
Obligations of State and Political Subdivisions	\$ 109,969	\$ 31	\$ 92,593,635	\$ 11,856,745	\$ 11,856,776
Collateralized Mortgage Obligations	17,346,846	16,344	49,612,700	4,136,254	4,152,598
GSE Residential Mortgage-Backed	-	-	63,549,485	13,480,550	13,480,550
Total	<u>\$ 17,456,815</u>	<u>\$ 16,375</u>	<u>\$ 205,755,820</u>	<u>\$ 29,473,549</u>	<u>\$ 29,489,924</u>
<b>December 31, 2024</b>					
<u>Debt Securities Available for Sale</u>					
Obligations of State and Political Subdivisions	\$ 3,940,096	\$ 24,928	\$ 88,749,531	\$ 16,655,507	\$ 16,680,435
Collateralized Mortgage Obligations	42,459,620	383,183	14,585,419	5,030,298	5,413,481
GSE Residential Mortgage-Backed	-	-	92,037,395	18,074,537	18,074,537
Total	<u>\$ 46,399,716</u>	<u>\$ 408,111</u>	<u>\$ 195,372,345</u>	<u>\$ 39,760,342</u>	<u>\$ 40,168,453</u>

At December 31, 2025, there were 235 debt securities in a loss position, 230 of which were in a loss position for 12 months or more. At December 31, 2024, there were 250 debt securities in a loss position, 229 of which were in a loss position for 12 months or more.

The Company's available for sale debt 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 debt 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 debt securities identified for potential credit concerns.

Management believes total gross unrealized losses are attributable to changes in interest rates, relative to when the debt securities were purchased, and not due to the credit quality of the debt securities. The fair value of these debt securities typically changes as market interest rates change and as each debt 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 debt securities to maturity or for a period of time sufficient to recover the loss.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 2 SECURITIES (CONTINUED)

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 debt securities. Therefore, the Company did not record an allowance for credit losses for these debt securities as of December 31, 2025 and 2024.

Debt securities available for sale with carrying values approximating \$107,682,000 and \$111,494,000 at December 31, 2025 and 2024, respectively, were pledged to secure public deposits, and for other purposes as required or permitted by law.

### NOTE 3 LOANS, NET

Loans as of December 31 are summarized as follows:

	2025	2024
Commercial	\$ 104,641,144	\$ 90,311,315
Real Estate	129,418,381	142,460,970
Consumer	17,733,496	10,659,380
Premier	22,310,150	20,956,338
Other	687,558	661,425
Subtotal	<u>274,790,729</u>	<u>265,049,428</u>
Less: Allowance for Credit Losses	<u>1,576,974</u>	<u>1,607,716</u>
Loans, Net	<u>\$ 273,213,755</u>	<u>\$ 263,441,712</u>

The Company has elected to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable on loans amounted to \$1,019,442 and \$948,874 at December 31, 2025 and 2024, 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 \$840,561 and \$900,300 at December 31, 2025 and 2024, respectively. There were advances of \$538,038 during the year ended December 31, 2025. Repayments during the years ended December 31, 2025 and 2024, totaled \$597,777 and \$68,284, 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 11% and 17% of the Bank's total loan portfolio at December 31, 2025 and 2024, 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.

# Notes to Consolidated Financial Statements

December 31, 2025 and 2024

## NOTE 3 LOANS, NET (CONTINUED)

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 \$30,895,111 and \$28,473,718 at December 31, 2025 and 2024, respectively. These loans are not included in the Company's consolidated balance sheets.

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, 2025 and 2024

### NOTE 3 LOANS, NET (CONTINUED)

The allowance for credit losses on loans is as follows:

<u>December 31, 2025</u>	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Premier</u>	<u>Other</u>	<u>Total</u>
<b>Allowance for Credit Losses:</b>						
Balance at Beginning of Year	\$ 346,427	\$ 1,065,781	\$ 110,311	\$ 77,443	\$ 7,754	\$ 1,607,716
Provision for Loan Losses	42,332	(95,760)	13,318	26,213	19,598	5,701
Loans Charged-Off	-	-	(16,725)	-	(21,029)	(37,754)
Recoveries of Loans	-	-	203	-	1,108	1,311
Previously Charged-Off	-	-	-	-	-	-
Balance at End of Year	<u>\$ 388,759</u>	<u>\$ 970,021</u>	<u>\$ 107,107</u>	<u>\$ 103,656</u>	<u>\$ 7,431</u>	<u>\$ 1,576,974</u>
<b>Allowance Related to:</b>						
Collateral Dependent Loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Collateral Dependent Loans	<u>\$ -</u>	<u>\$ 352,200</u>	<u>\$ -</u>	<u>\$ 47,805</u>	<u>\$ -</u>	<u>\$ 400,005</u>
<u>December 31, 2024</u>	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Premier</u>	<u>Other</u>	<u>Total</u>
<b>Allowance for Credit Losses:</b>						
Balance at Beginning of Year	\$ 299,313	\$ 1,138,796	\$ 132,953	\$ 80,986	\$ 7,958	\$ 1,660,006
Credit for Loan Losses	47,114	(73,015)	(18,665)	(3,543)	12,709	(35,400)
Loans Charged-Off	-	-	(3,977)	-	(12,913)	(16,890)
Recoveries of Loans	-	-	-	-	-	-
Previously Charged-Off	-	-	-	-	-	-
Balance at End of Year	<u>\$ 346,427</u>	<u>\$ 1,065,781</u>	<u>\$ 110,311</u>	<u>\$ 77,443</u>	<u>\$ 7,754</u>	<u>\$ 1,607,716</u>
<b>Allowance Related to:</b>						
Collateral Dependent Loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Collateral Dependent Loans	<u>\$ -</u>	<u>\$ 493,157</u>	<u>\$ 79,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 572,416</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 3 LOANS, NET (CONTINUED)

The Company utilizes 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 allowance for credit loss estimate applies a forecast that incorporates trends and other environmental factors. Management utilized national, regional, and local leading economic indexes, as well as managements judgment, 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 a reserve for unfunded loan 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 and is determined quarterly based on methodology similar to the methodology for determining the allowance for credit losses for loans. At December 31, 2025 and 2024, no reserve for unfunded loan commitments was necessary.

*Provision (Credit) for Credit Losses:* The provision (credit) for credit losses is determined by the Bank as the amount to be added to the allowance 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 allowance 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 provision (credit) for credit losses for the years ended December 31, 2025 and 2024:

	2025	2024
Loans	\$ 5,701	\$ (35,400)
Unfunded Loan Commitments	-	-
Investment Securities	-	-
Total Provision (Credit) for Credit Losses	<u>\$ 5,701</u>	<u>\$ (35,400)</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### 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.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 3 LOANS, NET (CONTINUED)

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

<u>Commercial</u>	<u>2025</u>	<u>2024</u>
Risk Rating:		
Pass	\$ 101,724,637	\$ 90,082,686
Special Mention	2,718,026	-
Substandard	198,481	228,629
Total	<u>\$ 104,641,144</u>	<u>\$ 90,311,315</u>

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

<u>December 31, 2025</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Premier</u>	<u>Other</u>	<u>Total</u>
Payment Activity:					
Performing	\$ 129,066,181	\$ 17,733,496	\$ 22,262,345	\$ 687,558	\$ 169,749,580
Nonperforming (Nonaccrual)	352,200	-	47,805	-	400,005
Total	<u>\$ 129,418,381</u>	<u>\$ 17,733,496</u>	<u>\$ 22,310,150</u>	<u>\$ 687,558</u>	<u>\$ 170,149,585</u>

<u>December 31, 2024</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Premier</u>	<u>Other</u>	<u>Total</u>
Payment Activity:					
Performing	\$141,967,813	\$ 10,580,121	\$ 20,956,338	\$ 661,425	\$ 174,165,697
Nonperforming (Nonaccrual)	493,157	79,259	-	-	572,416
Total	<u>\$ 142,460,970</u>	<u>\$ 10,659,380</u>	<u>\$ 20,956,338</u>	<u>\$ 661,425</u>	<u>\$ 174,738,113</u>

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

<u>December 31, 2025</u>	<u>Accruing Interest</u>			<u>Total Nonaccrual</u>	<u>Total Loans</u>
	<u>Current</u>	<u>30 - 89 Days Past Due</u>	<u>90 Days or More Past Due</u>		
	Commercial	\$ 104,616,570	\$ 24,574		
Real Estate	129,016,966	49,215	-	352,200	129,418,381
Consumer	17,733,496	-	-	-	17,733,496
Premier	22,262,345	-	-	47,805	22,310,150
Ready Cash	686,558	1,000	-	-	687,558
Total	<u>\$ 274,315,935</u>	<u>\$ 74,789</u>	<u>\$ -</u>	<u>\$ 400,005</u>	<u>\$ 274,790,729</u>

<u>December 31, 2024</u>	<u>Accruing Interest</u>			<u>Total Nonaccrual</u>	<u>Total Loans</u>
	<u>Current</u>	<u>30 - 89 Days Past Due</u>	<u>90 Days or More Past Due</u>		
	Commercial	\$ 90,311,315	\$ -		
Real Estate	141,917,146	50,667	-	493,157	142,460,970
Consumer	10,575,621	4,500	-	79,259	10,659,380
Premier	20,956,338	-	-	-	20,956,338
Ready Cash	661,425	-	-	-	661,425
Total	<u>\$ 264,421,845</u>	<u>\$ 55,167</u>	<u>\$ -</u>	<u>\$ 572,416</u>	<u>\$ 265,049,428</u>

The amortized costs basis for loans on nonaccrual status for which there is no related allowance for credit losses was \$400,005 and \$572,416 as of December 31, 2025 and 2024, respectively.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 3 LOANS, NET (CONTINUED)

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 \$189,085 loan modifications to borrowers experiencing financial difficulty during 2025 and none in 2024. The 2025 modifications consist of three real estate loans with maturity extensions.

The following table presents loans by risk grade and origination year at December 31, 2025:

	2025	2024	2023	2022	Prior	Revolving Loans	Total
<b>Commercial</b>							
Risk Rating:							
Not Rated/Pass	\$ 27,695,170	\$ 11,975,030	\$ 10,672,853	\$ 15,210,754	\$ 30,909,092	\$ 5,261,738	\$ 101,724,637
Special Mention	-	2,221,012	-	-	-	497,014	2,718,026
Substandard	-	-	-	-	198,481	-	198,481
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 27,695,170</u>	<u>\$ 14,196,042</u>	<u>\$ 10,672,853</u>	<u>\$ 15,210,754</u>	<u>\$ 31,107,573</u>	<u>\$ 5,758,752</u>	<u>\$ 104,641,144</u>
Gross Charge-Offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Real Estate</b>							
Risk Rating:							
Not Rated/Pass	\$ 14,515,016	\$ 8,181,618	\$ 7,319,004	\$ 16,945,379	\$ 82,054,046	\$ -	\$ 129,015,063
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	104,085	299,233	-	403,318
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 14,515,016</u>	<u>\$ 8,181,618</u>	<u>\$ 7,319,004</u>	<u>\$ 17,049,464</u>	<u>\$ 82,353,279</u>	<u>\$ -</u>	<u>\$ 129,418,381</u>
Gross Charge-Offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Consumer</b>							
Risk Rating:							
Not Rated/Pass	\$ 6,671,994	\$ 3,802,821	\$ 2,365,924	\$ 2,912,991	\$ 1,967,307	\$ -	\$ 17,721,037
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	12,459	-	-	-	12,459
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 6,671,994</u>	<u>\$ 3,802,821</u>	<u>\$ 2,378,383</u>	<u>\$ 2,912,991</u>	<u>\$ 1,967,307</u>	<u>\$ -</u>	<u>\$ 17,733,496</u>
Gross Charge-Offs	<u>\$ 1,514</u>	<u>\$ 658</u>	<u>\$ 8,043</u>	<u>\$ 6,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,725</u>
<b>Premier/Other</b>							
Risk Rating:							
Not Rated/Pass	\$ -	\$ -	\$ -	\$ -	\$ 167,808	\$ 22,782,095	\$ 22,949,903
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	47,805	47,805
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,808</u>	<u>\$ 22,829,900</u>	<u>\$ 22,997,708</u>
Gross Charge-Offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,029</u>	<u>\$ 21,029</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 4 PREMISES AND EQUIPMENT

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

	2025	2024
Land and Improvements	\$ 3,410,862	\$ 3,423,980
Building and Improvements	8,849,461	8,699,625
Furniture and Equipment	11,019,996	10,788,954
Subtotal	<u>23,280,319</u>	<u>22,912,559</u>
Less: Accumulated Depreciation	(16,281,475)	(15,724,925)
Premises and Equipment, Net	<u>\$ 6,998,844</u>	<u>\$ 7,187,634</u>

Depreciation of premises and equipment amounted to \$590,945 in 2025 and \$606,050 in 2024.

### NOTE 5 DEPOSITS

Deposits at December 31 were as follows:

	2025	2024
Noninterest-Bearing Demand	\$ 145,041,182	\$ 136,483,548
Interest-Bearing Demand	92,315,273	94,141,064
Savings	114,612,283	117,919,090
Money Market	49,978,344	53,240,498
Time Deposits	142,318,679	131,443,502
Total	<u>\$ 544,265,761</u>	<u>\$ 533,227,702</u>

Time deposits of \$250,000 or more were \$22,951,721 and \$21,968,167 at December 31, 2025 and 2024, respectively. Scheduled maturities of time deposits at December 31, 2025, were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2026	\$ 135,045,928
2027	3,780,771
2028	1,274,592
2029	725,960
Thereafter	1,491,428
Total	<u>\$ 142,318,679</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 6 BORROWING ARRANGEMENTS

The Company has available at December 31, 2025, various borrowing arrangements with the FHLB of Cincinnati, including a \$40,000,000 CMA variable line of credit, a \$30,000,000 repurchase line, and \$7,500,000 of standby letters of credit. These borrowing arrangements are subject to annual renewal and incur no service charges. Outstanding borrowings 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 FHLB borrowings as of December 31, 2025 and 2024.

At December 31, 2025, the Company's maximum borrowing capacity with the FHLB was \$81,979,412.

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, and multi-family loans. There were no outstanding borrowings under the agreement as of December 31, 2025 and 2024. At December 31, 2025, the Company's maximum borrowing capacity with the Federal Reserve Bank was \$41,050,273.

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 \$9,956,227 as of December 31, 2025, and \$9,904,297 as of December 31, 2024. Amortization of debt issuance costs, which is included in interest expense, amounted to \$51,930 in 2025 and \$51,924 in 2024. Future amortization of debt issuance costs is \$43,773, after which the remaining balance will be fully amortized.

### NOTE 7 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.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 7 EMPLOYEE AND DIRECTOR BENEFITS (CONTINUED)

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 \$261,385 and \$243,827 in 2025 and 2024, respectively. Safe harbor contributions amounted to \$167,180 and \$161,100 in 2025 and 2024, 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 sheets. 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:

	2025	2024
Beginning Allocated Shares	188,854	180,472
Shares Repurchased	(13,410)	(13,979)
Shares Released for Allocation	22,484	22,361
Ending Allocated Shares	197,928	188,854
Unreleased Shares	99,867	108,941
Total ESOP Shares	<u>297,795</u>	<u>297,795</u>
Fair Value of Unearned Shares	<u>\$ 1,897,473</u>	<u>\$ 2,015,409</u>
Fair Value of Allocated Shares Subject to Repurchase Obligations	<u>\$ 3,760,632</u>	<u>\$ 3,493,799</u>

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 \$721,463 and \$773,962 as December 31, 2025 and 2024, respectively. Payments made to former directors under the phantom stock plan amounted to \$67,744 in 2025 and \$62,279 in 2024.

### NOTE 8 INCOME TAXES

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

	2025	2024
Federal:		
Current	\$ 30,185	\$ 246,017
Deferred	2,561	(127,880)
Total	<u>\$ 32,746</u>	<u>\$ 118,137</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 8 INCOME TAXES (CONTINUED)

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	2025		2024	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
U.S. Federal Statutory Tax Rate	\$ 926,400	21.0 %	\$ 687,900	21.0%
Tax Exempt Interest on State and Municipal Securities and Political Subdivision Loans	(709,900)	(16.1)	(538,300)	(16.4)
Bank-Owned Life Insurance	(41,700)	(0.9)	(41,200)	(1.3)
Deductible Dividends Paid to ESOP	(47,500)	(1.1)	(47,200)	(1.4)
Other Permanent Differences	(94,554)	(2.1)	56,937	1.7
Effective Tax Rate	<u>\$ 32,746</u>	<u>0.8 %</u>	<u>\$ 118,137</u>	<u>3.6%</u>

The deferred income tax credit of \$106,319 in 2025 and \$127,880 in 2024 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:

	2025	2024
Deferred Tax Assets:		
Allowance for Loan Losses	\$ 252,100	\$ 258,500
Deferred Compensation	151,500	162,500
Unrealized Loss on Available for Sale Securities	6,181,403	8,429,842
Deferred Incentive Revenue	96,700	108,000
Other, Net	21,497	13,658
Total	<u>6,703,200</u>	<u>8,972,500</u>
Deferred Tax Liabilities:		
FHLB Stock Dividend	23,000	39,200
Deferred Loan Fees	85,800	95,600
Premises and Equipment	287,600	290,800
Prepaid Expenses	62,800	51,900
Total	<u>459,200</u>	<u>477,500</u>
Net Deferred Tax Assets	<u>\$ 6,244,000</u>	<u>\$ 8,495,000</u>

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 8 INCOME TAXES (CONTINUED)

During the years ended December 31, 2025 and 2024 income taxes paid (net of refunds received) for federal were \$340,000 and \$165,000, respectively.

Net deferred tax assets are included in other assets in the accompanying consolidated balance sheets.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Therefore, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2025 and 2024.

### NOTE 9 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, 2025 and 2024, the following financial instruments whose contract amount represents credit risk were approximately as follows:

	2025	2024
Unfunded Commitments to Extend Credit	\$ 58,139,305	\$ 60,175,776
Standby Letters of Credit	97,900	154,400
Total	<u>\$ 58,237,205</u>	<u>\$ 60,330,176</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment 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.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 9 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

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.

### NOTE 10 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, 2025 and 2024, that the Bank met all capital adequacy requirements to which it is subject. In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of Common Tier 1 equity.

As of December 31, 2025, 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, 2025 and 2024

### NOTE 10 REGULATORY MATTERS (CONTINUED)

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

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
<b>December 31, 2025</b>						
Total Capital to Risk-Weighted Assets	\$ 59,473	22.2 %	\$21,403	8.0 %	\$28,091	10.5 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	57,966	21.7	12,039	4.5	18,728	7.0
Tier 1 Capital to Risk-Weighted Assets	57,966	21.7	16,052	6.0	22,741	8.5
Tier 1 Capital to Average Assets	57,966	9.5	24,532	4.0	36,798	6.0
<b>December 31, 2024</b>						
Total Capital to Risk-Weighted Assets	\$ 56,269	22.3 %	\$ 20,184	8.0 %	\$ 26,492	10.5 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	54,801	21.7	11,354	4.5	17,661	7.0
Tier 1 Capital to Risk-Weighted Assets	54,801	21.7	15,138	6.0	21,446	8.5
Tier 1 Capital to Average Assets	54,801	9.5	23,087	4.0	34,630	6.0

### NOTE 11 REGULATORY RESTRICTIONS

The Federal Reserve Bank may require the Company to maintain certain reserve balances. As of December 31, 2025 and 2024, 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, 2025, the Company was not precluded from making normal dividend payments from the more restrictive of the two limitations.

### NOTE 12 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.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

*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.

The carrying amounts of cash and cash equivalents, accrued interest receivable, accrued interest payable, and deposits approximate fair value due to the short-term nature of these instruments. The fair value of loans, time deposits, subordinated debt, and certain other financial instruments is not practicable to estimate due to the lack of quoted market prices, the significant judgment required in estimating future cash flows, prepayment assumptions, and credit risk adjustments, and the fact that these instruments are not actively traded.

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, 2025 and 2024.

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.

The following table summarizes financial and nonfinancial assets (there were no financial liabilities) measured at fair value as of December 31, 2025 and 2024, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<b>December 31, 2025</b>	Level 1	Level 2	Level 3	Total
Debt Securities Available for Sale:				
Obligations of State and Political Subdivisions	\$ -	\$ 96,376,429	\$ -	\$ 96,376,429
Collateralized Mortgage Obligations	-	70,315,935	-	70,315,935
GSE Residential Mortgage-Backed	-	89,634,466	-	89,634,466
Total Securities				
Available for Sale	<u>\$ -</u>	<u>\$ 256,326,830</u>	<u>\$ -</u>	<u>\$ 256,326,830</u>

## Notes to Consolidated Financial Statements

### NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

<u>December 31, 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt Securities Available for Sale:				
Obligations of State and Political Subdivisions	\$ -	\$ 94,205,140	\$ -	\$ 94,205,140
Collateralized Mortgage Obligations	-	65,287,929	-	65,287,929
GSE Residential Mortgage-Backed	-	98,404,394	-	98,404,394
Total Securities Available for Sale	<u>\$ -</u>	<u>\$ 257,897,463</u>	<u>\$ -</u>	<u>\$ 257,897,463</u>

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.

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.

#### Collateral Dependent Loans

From time to time, an allowance for credit loss may be established for certain collateral dependent loans based on an appraised value of the underlying collateral. Such collateral dependent loans are considered to be measured at fair value and recorded as nonrecurring Level 3 financial instruments.

## Notes to Consolidated Financial Statements

December 31, 2025 and 2024

### NOTE 13 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.

# Quick Facts



**4,284,528**  
Digital Transactions



**7,342**  
Mobile Users



**58**  
Small business loan  
originations



**3,157**  
Credit Monitoring Users



## Corporate Headquarters

600 East Main Street  
Andover, OH 44003

## ab Investment Services

1853 State Route 45  
Austinburg, OH 44010

## Stock Transfer Agent and Registrar

Equiniti Trust Company, LLC  
PO Box 500  
Newark, NJ 07101  
[www.helpAST@equiniti.com](mailto:www.helpAST@equiniti.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

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