2014 ANNUAL REPORT

CROGHAN

BANCSHARES, INC.

DIRECTORS

CROGHAN BANCSHARES, INC
CROGHAN COLONIAL BANK

James E. Bowlus, Lead Director
Retired

Michael D. Allen Sr.
Executive Vice President/General Manager
International Metal Hose Company

John J. Caputo
Co-Owner/Vice President
Jack Bradley Realty Company

James C. Dunn
Co-Owner
Dunn Chevrolet Buick

James R. Faist
Retired

Claire F. Johansen
Co-Owner
Lane of Dreams Farm, LLC

Stephen A. Kemper
Owner
Kemper Iron & Metal Company

Daniel W. Lease
Vice President Administration/CFO
WT Holdings, LLC

Thomas W. McLaughlin
Retired

Allan E. Mehlow
Chief Financial Officer
The Mosser Group/WMOG, Inc.

Rick M. Robertson
President/CEO
Croghan Colonial Bank

Gary L. Zimmerman
Owner/Partner
Swint-Reineck Company

DIRECTORS EMERITI

Steven C. Futrell

Ted L. Hilty

Don W. Miller

Robert H. Moyer

J. Terrence Wolfe

OFFICERS

CROGHAN BANCSHARES, INC

Rick M. Robertson
President/CEO

Kendall W. Rieman
Vice President/Treasurer

Barry F. Luse
Vice President/Secretary

Stacy A. Cox
Vice President

Daniel N. Schloemer
Vice President

SENIOR MANAGEMENT

CROGHAN COLONIAL BANK

Rick M. Robertson
President/CEO

Kendall W. Rieman
Executive Vice President/CFO

Stacy A. Cox
Senior Vice President/COO

Carrie L. Dickinson
Senior Vice President/CCO

Barry F. Luse
Senior Vice President/Trust Officer

Daniel N. Schloemer
Senior Vice President/CLO

Jodi A. Albright
Vice President/Retail Operations
Manager

Charles T. Barteck
Vice President/Retail Sales Manager

Laura M. Whipple
Human Resource Manager

CROGHAN BANCSHARES, INC.

CONTENTS

Investor Relations

Croghan Bancshares, Inc.
Amy LeJeune
323 Croghan Street
Fremont, OH 43420
419-332-7301
1-888-276-4426
www.croghan.com

Availability of More Information

To obtain a free copy of the Corporation's Annual Report for the year ended December 31, 2014, or for other information, contact us by one of the methods noted above.

Market Maker

Boenning & Scattergood
9916 Brewster Lane
Powell, Ohio 43065
Toll-Free: 1-866-326-8113

Annual Meeting

The Annual Meeting of Shareholders will be held on
Tuesday, May 12, 2015
1:00 pm (local time) at
Terra State Community College
Neeley Conference Center
2830 Napoleon Road
Fremont, Ohio 43420

A Message from CEO Rick Robertson

Highlights for 2014

- Net income of $8,617,000 for 2014; a 94% increase over $4,447,000 in 2013
- Per share net income of $3.79; a 47% increase over the $2.58 for 2013
- The fourth quarter dividend of $0.34 per share, was paid on January 30, 2015. For 2014, dividends declared totaled $1.31, increasing during the year from $0.32 for each of the first two quarters, to $0.33 for the third quarter, and $0.34 for the fourth quarter.
- Strengthened net interest margin to 3.92% and strengthened stockholder equity position to $93.6 million
- Return on average assets of 1.08% for 2014

Financial Performance

2014 net income totaled $8,617,000, which represents a 94% increase above the 2013 reported net income of $4,447,000. Management-initiated operating efficiencies and natural synergies of combining the two banks has resulted in a larger, more efficient bank with improved margins. Our net interest margin for 2014 was 3.92%, well ahead of the 3.30% reported in 2013 and the 2012 net interest margin of 3.18%. The improved net interest margin is a result of a number of factors including a higher loan to asset ratio, improved yields in the investment portfolio, and shrinking the balance sheet to allow some high cost deposits to run off. The improved profitability also resulted in a 9.52% return on average stockholder equity for 2014. We are very pleased with both the profitability and margin improvements and how well the acquisition has blended two banks into one. In addition, our return on average assets was 1.08%, which is above our peer averages, and well above the 0.69% return on average assets in 2013 and 0.77% return on average assets in 2012. To be fair in our comparisons, we did have one-time acquisition related expenses which reduced our 2013 performance numbers. Nevertheless, 2014 was an excellent year, and we are pleased with the performance and the improvement. It is not often that a CEO gets to report a 94% increase in earnings.

Dividends and Equity Position

The increased earnings in 2014 have provided the ability to both increase annualized dividends by 6.25% ($0.02 increase on a previous quarterly base of $0.32 per share) and increase stockholder equity to $93.6 million, or a 12% equity base compared to total year-end assets. Our quarterly dividends had been running at a $0.32 per share rate. During the third quarter of 2014, dividends increased to $0.33 per share, and then the fourth quarter dividend was increased to $0.34 per share. Based on our year-end stock price of $35.18, the annualized current dividend rate of $1.36 represents a 3.87% cash return. Using our $3.79 per share earnings for 2014 and the year-end market price per share of $35.18, the price/earnings multiple was at 9.3 times the last 12 months earnings. We also know that we are operating in a time where there is clearly the regulatory expectation to maintain higher capital levels than were required in the past. We do believe we are well positioned to meet those future capital requirements.

Loan Portfolio

A year ago we were optimistic that the combined loan portfolio after the acquisition would meet the performance and risk factors as planned. To date we are pleased with both performance and risk evaluations of our larger loan portfolio. Net loans have grown to $479.8 million at year-end 2014. Our provision expense for loan loss in 2014 totaled $740,000, up from $275,000 in 2013 based on a larger portfolio and our risk assessment. Net loan charge-offs as a percentage of average net loans outstanding was 0.24%, which we view as favorable based on the larger portfolio.

During 2014, our plan was to have a diversified approach to lending in our communities. From a volume of new loan perspective, commercial lending and commercial real estate led the way, followed respectively by 1st mortgage residential lending, consumer lending, and indirect/dealer services lending. In 2015, our approach continues with lending increases in each segment planned. Not only does this approach provide us good diversification, it also matches the credit needs of the individuals and business clients in the communities we serve.

It is very important for us to continue to increase our lending efforts. A strong loan to asset ratio will be important for us to maintain and grow our profitability. So please, send your friends and neighbors to Croghan Colonial Bank for their lending needs.

Downtown Port Clinton

We are also excited about a new branch office with a planned opening in the second quarter of 2015. Construction is currently underway in downtown Port Clinton at 226 East Perry Street for our 17th full service branch location. An official opening date will be determined over the next few months. After opening, we will provide excellent convenience within Ottawa County and Eastern Lucas County with our office locations of Port Clinton Catawba, Port Clinton Downtown, Oak Harbor, Curtice, and Oregon.

Marketing/Brand Awareness

Today, our bank is bigger and we cover a wider geography. We continue to have a strong #1 deposit market share in Sandusky County but we are more than a Sandusky County bank. We wanted, but do not have, answers to a number of questions. How do we improve our brand awareness throughout our market? How is the bank perceived in our newer markets? What separates Croghan Colonial Bank from our peers? How do we do a better job of telling the very positive Croghan Colonial Bank story?

To help us, we have engaged an experienced marketing firm to conduct market research, complete focus groups across our markets, and help us develop a comprehensive plan to focus on the improvement of our brand awareness and recognition across the markets we serve.

While we are in the early stages of the brand awareness process, you should know that the market feedback has been extremely positive and we are well positioned to continue our growth. The logo on the front cover of this annual report shows our new logo, slightly modified from the previous logo.

Thank you for your continuing support. It is truly a privilege to lead this organization. We are looking forward to a successful 2015.

Very truly yours,

Rick M. Robertson
President and Chief Executive Officer

January 2015

Croghan Bancshares, Inc.

DESCRIPTION OF THE CORPORATION

Croghan Bancshares, Inc. ("Croghan"), an Ohio corporation, is a bank holding company incorporated in 1983 with $779,425,000 in total assets as of December 31, 2014. Croghan owns all of the outstanding shares of The Croghan Colonial Bank ("Bank"), an Ohio state-chartered bank incorporated in 1888 and headquartered in Fremont, Ohio.

The Bank offers a diverse range of commercial and retail banking services through its 16 banking centers located in Bellevue, Clyde, Curtice, Fremont, Green Springs, Monroeville, Norwalk, Oak Harbor, Oregon, Port Clinton, and Tiffin Ohio, as well as one Loan Production office located in Perrysburg Ohio. Products are comprised of traditional banking services such as consumer, commercial, agricultural and real estate loans, personal and business checking accounts, savings accounts, time deposit accounts, safe deposit box services, and trust department services. Investment products bearing no FDIC insurance are offered through the Bank's Trust and Investment Services Division.

MARKET PRICE AND DIVIDENDS ON COMMON SHARES

Croghan's common shares are quoted on the OTCQX under the symbol "CHBH." The following shows the range of high and low price quotations, as reported on the OTCQX, for Croghan's common shares for each quarterly period during 2014 and 2013. OTCQX quotations reflect inter-dealer prices, without mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	2014		**2013**	
	Low	**High**	**Low**	**High**
First Quarter	$33.40	35.12	$30.65	35.03
Second Quarter	32.65	35.20	33.75	35.75
Third Quarter	33.19	36.00	34.25	36.75
Fourth Quarter	34.05	36.00	32.55	37.00

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

2014	**Net income**	**Basic net income per share**	**Dividend per share**
First quarter	$2,204	$ .97	$ .32
Second quarter	2,222	.98	.32
Third quarter	2,251	.99	.33
Fourth quarter	1,940	.85	.34
Total	$8,617	$3.79	$1.31

2013	**Net income**	**Basic net income per share**	**Dividend per share**
First quarter	$1,216	$ .72	$ .32
Second quarter	1,392	.83	.32
Third quarter	1,054	.63	.32
Fourth quarter	785	.40	.32
Total	$4,447	$2.58	$1.28

The ability of Croghan to declare and pay dividends on its common shares is dependent, in large part, on dividends received from the Bank. The ability of the Bank to pay dividends is subject to certain legal and regulatory limitations described in Note 19 to the consolidated financial statements contained in the Annual Report.

CROGHAN BANCSHARES, INC.

THREE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Years ended December 31,		
	2014	2013	2012
	(Dollars in thousands, except share data)		
Statements of operations:			
Total interest income	$30,652	$21,456	$21,059
Total interest expense	2,418	2,194	3,086
Net interest income	28,234	19,262	17,973
Provision for loan losses	740	275	525
Net interest income, after provision for loan losses	27,494	18,987	17,448
Total non-interest income	5,817	5,919	4,553
Total non-interest expenses	21,929	19,567	16,417
Income before federal income taxes	11,382	5,339	5,584
Federal income taxes	2,765	892	741
Net income	$ 8,617	$ 4,447	$ 4,843
Per share of common stock:			
Net income - Basic	$ 3.79	$ 2.58	$ 2.89
Net income - Diluted	3.78	2.57	2.88
Dividends	1.31	1.28	1.28
Book value	41.01	37.45	40.01
Average shares of common stock outstanding	2,275,666	1,720,807	1,673,667
Year-end balances:			
Loans, net	$479,788	$470,706	$316,952
Securities	225,407	257,509	242,395
Total assets	779,425	817,860	630,952
Deposits	649,270	688,921	511,940
Stockholders' equity	93,619	85,048	67,164
Selected ratios:			
Net yield on average interest-earning assets	3.92%	3.30%	3.18%
Return on average assets	1.08	.69	.77
Return on average stockholders' equity	9.52	6.60	7.40
Net loan charge-offs as a percent of average outstanding net loans	.24	.17	.32
Allowance for loan losses as a percent of year-end loans	.88	.85	1.35
Stockholders' equity as a percent of total year-end assets	12.01	10.40	10.64
Number of stockholders of record	1,001	994	688
Number of full-time equivalent employees	203	190	167

Notes:

1) Financial Data for 2014 and 2013 includes the impact of the December 2013 acquisition of Indebancorp and its bank subsidiary, The National Bank of Ohio, Oak Harbor, Ohio, and the 2013 sale of the Custar branch.

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors
Croghan Bancshares, Inc.
Fremont, Ohio

We have audited the accompanying consolidated financial statements of Croghan Bancshares, Inc. and its subsidiary, which comprise the balance sheets, as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 2014 audit in accordance with auditing standards generally accepted in the United States of America and we conducted our 2013 and 2012 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Stockholders and Board of Directors
Croghan Bancshares, Inc.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Croghan Bancshares, Inc. and its subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Toledo, Ohio
March 10, 2015

CROGHAN BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2014	December 31, 2013
	(Dollars in thousands, except par value)	
CASH AND CASH EQUIVALENTS	$ 13,647	$ 27,710
SECURITIES		
Available-for-sale, at fair value	219,544	252,472
Restricted stock	5,863	5,037
Total securities	225,407	257,509
LOANS	484,052	474,748
Less: Allowance for loan losses	4,264	4,042
Net loans	479,788	470,706
PREMISES AND EQUIPMENT, NET	9,700	9,729
CASH SURRENDER VALUE OF LIFE INSURANCE	17,085	16,810
GOODWILL	22,416	22,959
CORE DEPOSIT INTANGIBLE ASSETS, NET	4,042	5,052
ACCRUED INTEREST RECEIVABLE	2,757	3,094
OTHER REAL ESTATE OWNED, net of valuation allowance of $92,000 in 2014 and $99,000 in 2013	865	876
OTHER ASSETS	3,718	3,415
TOTAL ASSETS	$779,425	$817,860

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
LIABILITIES		
Deposits:		
Demand, non-interest bearing	$135,295	$142,124
Savings, NOW, and Money Market deposits	331,591	344,695
Time	182,384	202,102
Total deposits	649,270	688,921
Federal funds purchased and securities sold under repurchase agreements	22,450	24,577
Borrowed funds	8,821	14,346
Dividends payable	776	726
Other liabilities	4,489	4,242
Total liabilities	685,806	732,812
STOCKHOLDERS' EQUITY		
Common stock, $12.50 par value. Authorized 6,000,000 shares; issued 2,506,208 shares in 2014 and 2013	31,328	31,328
Surplus	13,241	13,361
Retained earnings	53,092	47,460
Accumulated other comprehensive income	3,637	983
Treasury stock, 223,348 shares in 2014 and 235,479 in 2013, at cost	(7,679)	(8,084)
Total stockholders' equity	93,619	85,048
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$779,425	$817,860

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

Croghan Bancshares, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2014	2013	2012
	(Dollars in thousands, except per share data)		
INTEREST INCOME			
Loans, including fees	$24,343	$16,713	$16,797
Securities:			
Obligations of U.S. Government agencies and corporations	3,019	1,377	1,033
Obligations of states and political subdivisions	3,002	3,137	3,006
Other	264	201	198
Deposits in other banks	24	28	25
Total interest income	30,652	21,456	21,059
INTEREST EXPENSE			
Deposits	2,045	1,605	2,323
Other borrowings	373	589	763
Total interest expense	2,418	2,194	3,086
Net interest income	28,234	19,262	17,973
PROVISION FOR LOAN LOSSES	740	275	525
Net interest income, after provision for loan losses	27,494	18,987	17,448
NON-INTEREST INCOME			
Trust income	1,330	1,248	1,167
Service charges on deposit accounts	2,200	1,849	1,780
Gain on sale of Custar branch	-	1,172	-
Gain on sale of loans	699	331	246
Gain on sale of securities	14	293	311
Other	1,574	1,026	1,049
Total non-interest income	5,817	5,919	4,553
NON-INTEREST EXPENSES			
Salaries, wages, and employee benefits	12,366	11,016	8,922
Occupancy of premises	1,140	893	961
Amortization of core deposit intangible assets	1,011	272	400
Other operating	7,412	7,386	6,134
Total non-interest expenses	21,929	19,567	16,417
Income before federal income taxes	11,382	5,339	5,584
FEDERAL INCOME TAXES	2,765	892	741
NET INCOME	$ 8,617	$ 4,447	$ 4,843
NET INCOME PER SHARE			
Basic	$ 3.79	$ 2.58	$ 2.89
Diluted	$ 3.78	$ 2.57	$ 2.88

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

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31, 2014	2013	2012
	(Dollars in thousands)		
NET INCOME	$ 8,617	$ 4,447	$ 4,843
OTHER COMPREHENSIVE INCOME			
Unrealized gains (losses) on available-for-sale securities	4,034	(7,070)	2,587
Reclassification adjustments for securities gains included in income	(14)	(293)	(311)
Net unrealized gains (losses)	4,020	(7,363)	2,276
Income tax effect	1,366	(2,503)	774
Other comprehensive income (loss)	2,654	(4,860)	1,502
TOTAL COMPREHENSIVE INCOME (LOSS)	$11,271	$ (413)	$ 6,345

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2014, 2013, and 2012

(Dollars in thousands, except per share data)

	Common stock	Surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
BALANCE AT DECEMBER 31, 2011	**$23,926**	**$179**	**$42,662**	**$4,341**	**$(8,225)**	**$62,883**
Net income	-	-	4,843	-	-	4,843
Other comprehensive income	-	-	-	1,502	-	1,502
Issuance of restricted stock (5,250 shares from treasury)	-	(141)	-	-	141	-
Stock-based compensation expense	-	80	-	-	-	80
Cash dividends declared, $1.28 per share	-	-	(2,144)	-	-	(2,144)
BALANCE AT DECEMBER 31, 2012	**23,926**	**118**	**45,361**	**5,843**	**(8,084)**	**67,164**
Net income	-	-	4,447	-	-	4,447
Shares issued in connection with business combination	7,402	13,184	(10)	-	-	20,576
Other comprehensive loss	-	-	-	(4,860)	-	(4,860)
Stock-based compensation expense	-	59	-	-	-	59
Cash dividends declared, $1.28 per share	-	-	(2,338)	-	-	(2,338)
BALANCE AT DECEMBER 31, 2013	**31,328**	**13,361**	**47,460**	**983**	**(8,084)**	**85,048**
Net income	-	-	8,617	-	-	8,617
Shares issued in connection with exercise of stock options	-	(49)	-	-	226	177
Issuance of restricted stock, net of forfeitures (5,070 shares from treasury)	-	(179)	-	-	179	-
Other comprehensive income	-	-	-	2,654	-	2,654
Stock-based compensation expense	-	108	-	-	-	108
Cash dividends declared, $1.31 per share	-	-	(2,985)	-	-	(2,985)
BALANCE AT DECEMBER 31, 2014	**$31,328**	**$13,241**	**$53,092**	**$3,637**	**$(7,679)**	**$93,619**

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

Croghan Bancshares, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2014	2013	2012
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 8,617	$ 4,447	$ 4,843
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,817	547	629
Provision for loan losses	740	275	525
Deferred federal income taxes	439	439	206
Gain on sale of Custar branch	-	(1,172)	-
Gain on sale of loans	(699)	(331)	(246)
Net loss on sale or write-down of other real estate owned	-	66	20
Loss on sale of premises	-	10	-
Increase in cash value of life insurance	(275)	(126)	(321)
Net amortization of security premiums and discounts	3,304	5,398	6,425
Stock-based compensation expense	108	59	80
Gain on sale of securities	(14)	(293)	(311)
Proceeds from sale of loans, net of originations	475	227	181
Decrease (increase) in accrued interest receivable	337	43	(106)
Decrease (increase) in other assets	(292)	1,191	253
Increase (decrease) in other liabilities	(1,048)	(100)	(430)
Net cash provided by operating activities	13,509	10,680	11,748
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of securities	50,769	82,803	86,240
Proceeds from sales of restricted stock	50	-	-
Proceeds from sales of available-for-sale securities	18,295	6,813	7,858
Purchases of available-for-sale securities	(35,405)	(93,459)	(110,875)
Purchases of restricted stock	(876)	-	-
Proceeds from sale of other real estate owned	931	1,145	1,757
Proceeds from disposal of premises	20	69	174
Proceeds from life insurance	-	-	1,097
Cash disbursed from sale of Custar branch	-	(16,590)	-
Net proceeds from business combination	-	11,127	-
Proceeds from branch acquisition, net of final settlement payment	-	-	(1,026)
Purchase of restricted stock	-	(3)	(330)
Net decrease (increase) in loans	(9,918)	(2,774)	(21,446)
Additions to premises and equipment	(776)	(347)	(225)
Net cash provided by (used in) investing activities	23,090	(11,216)	(36,776)

CROGHAN BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended December 31, 2014	2013	2012
	(Dollars in thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	$(40,252)	$ 12,524	$ 10,648
Increase (decrease) in federal funds purchased and securities sold under repurchase agreements	(2,127)	(7,767)	(8,517)
Borrowed funds:			
Proceeds	-	-	-
Repayments	(5,525)	(6,115)	(3,301)
Cash dividends paid	(2,935)	(1,612)	(2,679)
Cash received from exercising options	177	-	-
Net cash used in financing activities	(50,662)	(2,970)	(3,849)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,063)	(3,506)	(28,877)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,710	31,216	60,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 13,647	$ 27,710	$ 31,216
SUPPLEMENTAL DISCLOSURES			
Cash paid during the year for:			
Interest	$ 3,202	$ 2,114	$ 3,097
Federal income taxes	$ 2,040	$ 735	$ 579
Non-cash operating activities:			
Change in deferred income taxes on net unrealized gain on available-for-sale securities	$ 1,367	$ (2,503)	$ 774
Non-cash investing activity:			
Change in net unrealized gain on available-for-sale securities	$ 4,020	$ (7,363)	$ 2,276
Change in Goodwill	$ (543)	$ -	$ -
Non-cash operating and investing activity:			
Transfer of loans to other real estate owned	$ 920	$ 692	$ 1,195

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Croghan Bancshares, Inc. (the "Corporation") was incorporated on September 27, 1983 in the State of Ohio. The Corporation is a bank holding company and has one wholly-owned subsidiary, The Croghan Colonial Bank (the "Bank"). The Corporation, through its subsidiary, operates in one industry segment, the commercial banking industry. The Bank, an Ohio chartered bank organized in 1888, has its main office in Fremont, Ohio and has branch offices located in Bellevue, Clyde, Curtice, Fremont, Green Springs, Monroeville, Norwalk, Oak Harbor, Oregon, Port Clinton, and Tiffin Ohio. The Bank's primary source of revenue is providing loans to clients primarily located in Huron, Lucas, Ottawa, Sandusky, Seneca, and Wood Counties. Such clients are predominantly small and middle-market businesses and individuals. See Note 3 regarding the 2013 business combination.

Significant accounting policies followed by the Corporation are presented below.

Use of Estimates in Preparing Financial Statements

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

Principles of Consolidation

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

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

Cash and Cash Equivalents

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

Restrictions on Cash

The Bank was required to have a minimum daily average of $3,106,000 over a two week period that encompassed December 31, 2014 of non-interest bearing cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements and $275,000 at December 31, 2013.

Securities

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

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

Restricted stock primarily consists of Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland stock. Such securities are carried at cost and evaluated for impairment on an annual basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Loans

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

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

Acquired Loans

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

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

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

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

Allowance for Loan Losses

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

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

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

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

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

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

Premises and Equipment

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

Cash Surrender Value of Life Insurance

Cash surrender value of life insurance is carried at the cash value of the underlying policies. Income on the investments in the policies, net of insurance costs, is recorded as non-interest income.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment at least annually to determine if an impairment loss has occurred. The core deposit intangible asset arising from the 2005 purchase of The Custar State Bank was amortized over an eight-year period on a straight-line basis through December 31, 2012. Core deposit intangible assets arising from the business combination described in Note 3 and the 2011 branch acquisition described in Note 4 are being amortized over ten years using the sum of the years digits amortization method.

Estimated future amortization of core deposit intangible assets is as follows: 2015, $879,000; 2016, $755,000; 2017, $638,000; 2018, $529,000; 2019, $427,000; and $815,000 thereafter.

Other Real Estate Owned

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing

Mortgage servicing rights are recognized as an asset when acquired through sale of loans. Capitalized servicing rights are reported in other assets and amortized to expense in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Mortgage servicing rights are evaluated for impairment based upon the estimated fair value of the rights as compared to amortized cost. Fair value is determined based upon estimated discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount.

Servicing fee income is recorded for fees earned for servicing loans and is included in other operating income, net of amortization of mortgage servicing rights.

Off-Balance Sheet Credit Related Financial Instruments

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

Transfers of Financial Assets

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

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

Supplemental Retirement Benefits

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

Advertising Costs

All advertising costs are expensed as incurred.

Federal Income Taxes

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income

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

Per Share Data

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

The weighted average number of shares outstanding for the years ended December 31, 2014, 2013, and 2012 are as follows:

	2014	2013	2012
Basic	2,275,666	1,720,807	1,673,667
Diluted	2,280,583	1,728,309	1,679,983

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

Subsequent Events

Management evaluated subsequent events through March 10, 2015, the date the consolidated financial statements were available to be issued. Events or transactions occurring after December 31, 2014, but prior to March 10, 2015, that provided additional evidence about conditions that existed at December 31, 2014, have been recognized in the consolidated financial statements for the year ended December 31, 2014. Events or transactions that provided evidence about conditions that did not exist at December 31, 2014, but arose before the consolidated financial statements were available to be issued, have not been recognized in the consolidated financial statements for the year ended December 31, 2014.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In July 2013, the FASB issued ASU 2013-11 Topic 740, Income Taxes, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The FASB issued ASU 2013-11 to eliminate the diversity in the presentation of unrecognized tax benefits in those instances. The amendments in this update are effective for annual and interim reporting periods beginning after December 15, 2013. The amendment was effective in 2014, and the adoption did not have an impact on the Corporation’s 2014 consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, amending ASC topic 860. The FASB issued ASU 2014-11 to change the accounting for repurchase-to-maturity transactions and linked repurchase financials to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this update are effective for the first interim or annual period beginning after December 15, 2014, and the Corporation has not yet determined the financial statement impact.

In August 2014, the FASB issued ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors.* The FASB issued ASU 2014-14 to reduce the diversity of how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The amendments in this update are effective for annual periods, and interim periods within those periods, beginning after December 15, 2014. The Corporation has determined the provisions for ASU 2014-04 will not have a material impact on future financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors* to clarify when an in substance repossession or foreclosure occurs. That is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the receivable should be derecognized and the real estate property recognized. The amendments in ASU 2014-04 apply to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable and are effective for annual and interim periods beginning after December 15, 2014. The Corporation has determined the requirements of ASU 2014-04 will not have a material impact on the financial statements.

NOTE 3 - BUSINESS COMBINATION

On December 6 2013, the Corporation acquired Oak Harbor, Ohio based Indebancorp and its wholly-owned subsidiary, National Bank of Ohio, through the merger of Indebancorp with and into the Corporation and the merger of National Bank of Ohio with and into the Bank. In the merger, the Corporation paid to the shareholders of Indebancorp total cash and stock consideration of $29,150,000. Under the terms of the merger, Indebancorp shareholders received $55.00 in cash or 1.63 shares of the Corporation’s common stock in exchange for each share of Indebancorp stock. With the acquisition, the Corporation has expanded its geographical footprint that will help to continue the growth of the Corporation’s overall profile in size and in earnings.

The results of operations of Indebancorp are included in the Corporation’s consolidated operating results for the period subsequent to the date of the transaction. Acquisition-related costs of $1,042,000 (excluding compensation costs related to change of control provisions described below) are included in other non-interest operating expenses in the accompanying 2013 consolidated statement of operations. The fair value of common shares issued in connection with the transaction was determined based on the closing price of the Corporation’s common stock on the date of the acquisition.

Original goodwill of $8,330,000 arose from the acquisition, which consisted largely of synergies and the cost savings expected to result from the combining of operations, and is not expected to be deductible for income tax purposes. During 2014, there was a reduction to the goodwill acquired of $543,000, to make the acquired goodwill $7,787,000. This reduction was a result of pending loan and federal income tax transactions.

Consideration paid and the estimated fair value of the assets acquired and liabilities assumed at the acquisition date are as follows (dollars in thousands):

Cash paid	$ 8,574
Common shares issued (592,099 shares)	20,576
Fair value of total consideration transferred	$ 29,150

Recognized amounts of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	$ 19,701
Securities, available for sale	22,876
Restricted stock	860
Loans	163,453
Premises and equipment	2,937
Cash surrender value of life insurance	5,597
Core deposit intangible asset	4,397
Accrued interest receivable	546
Other real estate owned	100
Other assets	2,628
Total assets acquired	223,095

NOTE 3 - BUSINESS COMBINATION (CONTINUED)

Deposits	194,491
Borrowed funds	5,262
Other liabilities	2,522
Total liabilities assumed	202,275
Net identifiable assets	20,820
Goodwill	8,330
Total cash and stock consideration	$ 29,150

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2012 (dollars in thousands). The pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

	2013	2012
Net interest income	$ 27,943	$ 27,701
Net income	$ 5,198	$ 6,800
Basic earnings per share	$ 2.29	$ 2.95
Diluted earnings per share	$ 2.29	$ 2.95

Other liabilities arising from the business combination included $1,586,000 of deferred compensation payable to former officers and directors of Indebancorp and its wholly-owned bank subsidiary. As a result of the transaction, certain change of control provisions were triggered which accelerated the payments of benefits under these agreements. As a result, the Corporation recognized additional compensation expense of $1,052,000 in December 2013. The Corporation made payments in December 2013 and January 2014 aggregating $2,312,000 to such former officers and directors of Indebancorp and its wholly-owned subsidiary. The Corporation's remaining obligation under these arrangements is $326,000 as disclosed in Note 16.

NOTE 4 - BRANCH TRANSACTIONS

On August 31, 2011, the Bank entered into an agreement to purchase four branch offices of The Home Savings and Loan ("HSL") Company of Youngstown, Ohio, located in Fremont, Clyde, and Tiffin, Ohio. Under the terms of the agreement, the Bank assumed all related deposits and purchased the related branch premises and certain loans. The transaction was completed on December 16, 2011, with assets acquired and deposits assumed being recorded at their estimated fair values as follows (dollars in thousands):

Cash	$ 83,398
Loans	21,503
Bank premises and equipment	1,801
Goodwill	4,245
Core deposit intangible asset	1,269
Other assets	66
Total assets acquired	$ 112,282
Deposits assumed	$ 111,075
Other liabilities, including payable to seller	1,207
Total liabilities assumed	$ 112,282

NOTE 4 - BRANCH TRANSACTIONS (CONTINUED)

On March 12, 2012, the Bank made a payment of $1,026,000 as final settlement for changes occurring between the draft settlement and final settlement. The operating results of the acquired branches, subsequent to December 16, 2011, are included in the Corporation's consolidated financial statements.

On August 7, 2013, the Bank entered into an agreement to sell its Custar branch to another financial institution. Under the terms of the agreement, the Bank received a 4% premium for all core deposits. The transaction closed on December 13, 2013, resulting in a gain on sale of $1,172,000 comprised of the following (dollars in thousands):

Deposits, including accrued interest	$ 29,483
Other liabilities	17
Total liabilities released	29,500
Cash paid, including cash on hand	16,590
Loans, including accrued interest	11,467
Premises and equipment	271
Total assets released	28,328
Net gain on sale of branch	$ 1,172

NOTE 5 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2014 and 2013 were as follows (dollars in thousands):

	2014	**2013**
Cash and due from banks	$13,598	$23,585
Interest-bearing deposits in other banks	49	4,125
Total	$13,647	$27,710

NOTE 6 - SECURITIES

The amortized cost and fair value of securities as of December 31, 2014 and 2013 were as follows (dollars in thousands):

	2014		2013	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Obligations of U.S. Government agencies and corporations	$122,030	$123,643	$152,252	$153,465
Obligations of states and political subdivisions	91,654	95,551	98,380	98,657
Other	350	350	350	350
Total available-for-sale	214,034	219,544	250,982	252,472
Restricted stock	5,863	5,863	5,037	5,037
Total	$219,897	$225,407	$256,019	$257,509

A summary of gross unrealized gains and losses on securities at December 31, 2014 and 2013 follows (dollars in thousands):

	2014		2013	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ 1,982	$ 369	$ 1,888	$ 675
Obligations of states and political subdivisions	4,051	154	2,316	2,039
Total available-for-sale	$ 6,033	$ 523	$ 4,204	$ 2,714

The amortized cost and fair value of securities at December 31, 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands).

	Available-for-sale	
	Amortized cost	Fair value
Due in one year or less	$ 20,390	$ 20,482
Due after one year through five years	131,626	135,208
Due after five years through ten years	60,997	62,823
Due after ten years	671	681
Other equity security having no maturity date	350	350
Total	$ 214,034	$ 219,544

Securities with a carrying value of $119,895,000 at December 31, 2014 and $100,870,000 at December 31, 2013 were pledged to secure public deposits and for other purposes as required or permitted by law.

Restricted stock primarily consists of investments in Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland stock. The Bank's investment in Federal Home Loan Bank of Cincinnati stock amounted to $3,342,000 at December 31, 2014 and $3,392,000 at December 31, 2013. The Bank's investment in Federal Reserve Bank of Cleveland stock amounted to $2,326,000 at December 31, 2014 and $1,451,000 at December 31, 2013.

Gross gains realized from sales of securities available-for-sale amounted to $234,000 in 2014, $321,000 in 2013, and $311,000 in 2012 with the income tax provision applicable to such gains amounting to $80,000 in 2014, $109,000 in 2013, and 106,000 in 2012. Gross realized losses from sales of securities available-for-sale amounted to $220,000 in 2014 and $28,000 in 2013 (none in 2012) with the income tax provision applicable to such losses amounting to $75,000 in 2014 and $10,000 in 2013.

NOTE 6 - SECURITIES (CONTINUED)

The following presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013 (dollars in thousands):

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2014						
Obligations of U.S. Government agencies and corporations	$ 279	$ 31,479	$ 90	$ 5,474	$ 369	$ 36,953
Obligations of states and political subdivisions	8	2,616	146	10,350	154	12,966
Total temporarily impaired securities	$ 287	$ 34,095	$ 236	$ 15,824	$ 523	$ 49,919
2013						
Obligations of U.S. Government agencies and corporations	$ 653	$ 47,379	$ 22	$ 2,832	$ 675	$ 50,211
Obligations of states and political subdivisions	1,430	34,214	609	5,062	2,039	39,276
Total temporarily impaired securities	$ 2,083	$ 81,593	$ 631	$ 7,894	$ 2,714	$ 89,487

At December 31, 2014, there were 59 securities in an unrealized loss position, with 24 being in a continuous unrealized loss position for twelve months or more. When evaluating these securities for impairment, management considers the issuer's financial condition, whether the securities are issued by federally-sponsored government agencies or political subdivisions, whether downgrades by the bond rating agencies have occurred, industry analyst reports, and volatility in the bond market. Management has concluded that the unrealized losses as of December 31, 2014 were primarily the result of customary and expected fluctuations in the bond market related to changes in interest rates. As management has the ability and intent to hold debt securities until recovery and meets the more likely than not requirement regarding the ability to hold securities for a period of time sufficient to allow for any anticipated recovery in fair value for securities classified as available-for-sale, all security impairments as of December 31, 2014 are considered temporary.

NOTE 7- LOANS

Most of the Bank's lending activity is with clients primarily located within Huron, Lucas, Ottawa, Sandusky, Seneca, and Wood Counties. Credit concentrations, as determined using the North American Industry Classification System, that exceeded 25% of tier one capital at December 31, 2014 and 2013 include $67,818,000 and $66,354,000 respectively, to borrowers in residential and investment properties, $63,756,000 and $63,547,000 respectively, to borrowers in Non-Residential Buildings, $40,204,000 and $34,892,000 respectively, to borrowers in the accommodation and food service industry, $18,893,000 and $19,148,000 respectively, to borrowers in the construction industry, $29,777,000 and $21,528,000 respectively, to borrowers in the manufacturing industry, and $18,885,000 and $21,371,000 respectively, to borrowers in the Arts, Entertainment, and Recreation industry.

The construction industry concentration includes loans to residential and commercial contractors who construct or install roads, sewers, bridges, homes, hotels, motels, apartment or commercial buildings, electrical and plumbing infrastructure, and air comfort systems. These loans are generally secured by real property, equipment, and receivables. Repayment is expected from cash flow from providing such services. The accommodation and food service industry concentration includes loans for the construction, purchase, and operation of hotels, restaurants, lounges, and campgrounds. These loans are generally secured by real property and equipment. Repayment is expected from cash flow from providing accommodations and food service to tourists, primarily visiting the Lake Erie region. The manufacturing industry concentration includes loans to local manufacturers who produce goods for a wide variety of industries, including chemical, automotive, and food processing. These loans are generally secured by real property, equipment, and receivables. Repayment is expected from cash flows generated from these operations. The Residential and Investment Property concentration includes loans to residential and apartment or buildings. These loans are generally secured by real property. Repayment is expected from personal cash flow or from providing such services. The Non-Residential Buildings concentration includes loans on office buildings, strip centers, or other industrial buildings. These loans are generally secured by real property. Repayment is expected from rent or cash flow from operations in such services. The Arts, Entertainment, and Recreation concentration includes loans to raceways or marinas. These loans are generally secured by real property. Repayment is expected from cash flow in such services.

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

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

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

NOTE 7 - LOANS (CONTINUED)

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

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

Credit losses arising from the Bank's lending experience in these industries compare favorably with the Bank's loss experience on its loan portfolio as a whole. Credit evaluation of construction industry and accommodation and food service industry lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

NOTE 7 - LOANS (CONTINUED)

The following presents the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2014 and 2013 (dollars in thousands):

		Real Estate					
	Commercial	Residential	Non-residential	Construction	Consumer	Credit card	Total
2014							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 175	$ 15	$ -	$ -	$ -	$ 190
Collectively evaluated for impairment	479	1,542	1,620	147	211	75	4,074
Total	$ 479	$ 1,717	$ 1,635	$ 147	$ 211	$ 75	$ 4,264
Loans:							
Loans individually evaluated for impairment	$ 1,422	$ 3,558	$ 3,256	$ -	$ -	$ -	$ 8,236
Loans acquired with deteriorated credit quality	82	797	1,669	-	-	-	2,548
Loans collectively evaluated for impairment	50,521	161,579	223,193	4,705	29,637	3,633	473,268
Total	$52,025	$165,934	$228,118	$ 4,705	$29,637	$3,633	$484,052
2013							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 320	$ 117	$ -	$ -	$ -	$ 437
Collectively evaluated for impairment	456	1,565	883	464	164	73	3,605
Total	$ 456	$ 1,885	$ 1,000	$ 464	$ 164	$ 73	$ 4,042
Loans:							
Loans individually evaluated for impairment	$ 676	$ 2,644	$ 3,575	$ -	$ -	$ -	$ 6,895
Loans acquired with deteriorated credit quality	102	835	2,432	-	-	-	3,369
Loans collectively evaluated for impairment	43,356	172,605	205,845	11,608	27,515	3,555	464,484
Total	$44,134	$176,084	$211,852	$11,608	$27,515	$3,555	$474,748

Fixed-rate loans amounted to $174,486,000 at December 31, 2014 and $163,891,000 at December 31, 2013.

NOTE 7 - LOANS (CONTINUED)

The contractual loan receivable for loans acquired with deteriorated credit quality was $2,861,000 and $4,046,000 at December 31, 2014 and 2013. The change in the contractual loan receivable included $846,000 of loan payments and $339,000 of net charge offs. The recorded investment in loans acquired with deteriorated credit quality is presented net of a credit quality and market adjustment that amounted to $313,000 and $677,000 at December 31, 2014 and 2013.

The following represents loans individually evaluated for impairment by class of loans as of December 31, 2014 and 2013 (dollars in thousands):

	2014			2013		
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:						
Commercial loans	$ 1,450	$ 1,422	$ -	$ 616	$ 616	$ -
Commercial overdraft LOC	-	-	-	60	60	-
Open-end home equity	316	244	-	140	140	-
1 – 4 family real estate (1st mortgages)	2,299	2,050	-	972	949	-
1 – 4 family real estate (Jr. mortgages)	3	3	-	8	8	-
Multifamily real estate	255	230	-	277	276	-
Non-farm/non-residential real estate	3,177	3,085	-	1,460	1,299	-
With an allowance recorded:						
Open-end home equity	193	193	35	201	201	69
1 – 4 family real estate (1st mortgages)	955	838	140	1,213	1,070	251
Non-farm/non-residential real estate	176	171	15	2,276	2,276	117
Total	$ 8,824	$ 8,236	$ 190	$ 7,223	$ 6,895	$ 437

The following is additional information with respect to impaired loans for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	2014	2013	2012
Average investment in impaired loans	$ 6,822	$ 7,139	$ 7,448
Interest income recognized on impaired loans	$ 401	$ 249	$ 306
Interest income recognized on a cash basis on impaired loans	$ 33	$ 33	$ 39

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

NOTE 7 - LOANS (CONTINUED)

The following represents a summary of the number and recorded investments of TDRs occurring during the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	2014		2013		2012	
	Number	Amount	Number	Amount	Number	Amount
Commercial loans	3	$ 271	-	$ -	2	$ 771
Open-end home equity	3	60	1	130	2	134
1 – 4 family real estate (1st mortgage)	6	505	3	228	6	579
1 – 4 family real estate (Jr. mortgage)	-	-	-	-	2	15
Non-farm/non-residential real estate	2	395	3	399	-	-
Construction real estate	-	-	-	-	2	149
Total recorded investments	14	$1,231	7	$ 757	14	$1,648

The provision for loan losses relating to loans that were modified in troubled debt restructurings ("TDR") amounted to $6,000 in 2014, $54,000 in 2013, and $33,000 in 2012.

TDRs occurring in 2014 consisted of 14 loans and 12 overall borrowing relationships. These modifications included six modifications and extension of loan payments, three lines of credit that were termed out, two where monthly payments were reduced, two where matured balloon notes were re-amortized, and one where the maturity of a single pay note was extended.

TDRs that occurred during 2013 involved seven loans and four overall borrowing relationships. One of these modifications involved advancing additional funds to pay real estate taxes, two involved modification and extension of loan payments, and one involved a re-appraisal and charge-down.

The following is a summary of the conditions and modifications for TDRs occurring during 2012:

- Two of the modifications resulted in extending the maturity and a new amortization schedule.
- Two modifications resulted in a reduced interest rate.
- Two modifications had an independent source bring the loans current and agree to service the loans for a specified period of time.
- Two modifications had a reduction of principal and interest resulting in a balloon payment at maturity.
- One modification resulted in principal and interest being suspended for 11 months.
- Two modifications resulted in interest only concessions for six and four month periods, respectively.
- Two modifications resulted in reduced principal and interest payments for six and 12 months periods, respectively.
- One modification resulted in the renewal of a line-of-credit in exchange for loan term changing from interest only to principal and interest during the renewal period.

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

There were no subsequent defaults on TDRs during the years ended December 31, 2014, 2013, and 2012.

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

NOTE 7 - LOANS (CONTINUED)

The following presents the recorded investment in past due and non-accrual loans as of December 31, 2014 and 2013 by class of loans (dollars in thousands).

	Loans past due accruing interest 30 – 89 days	90+ days	Total	Loans on non-accrual	Loans not past due or non-accrual	Total
2014						
Agricultural loans	$ -	$ -	$ -	$ 5	$ 3,340	$ 3,345
Commercial loans	159	-	159	136	47,328	47,623
Commercial overdraft LOC	-	-	-	-	201	201
Commercial non-profit/political subdivisions	-	-	-	-	856	856
Open-end home equity	388	19	407	112	34,473	34,992
1 – 4 family real estate (1st mortgages)	2,038	469	2,507	1,417	123,033	126,957
1 – 4 family real estate (Jr. mortgages)	6	5	11	-	3,974	3,985
Multifamily real estate	-	-	-	230	37,947	38,177
Farm real estate	30	39	69	-	8,550	8,619
Non-farm/non-residential real estate	1,140	13	1,153	1,192	178,977	181,322
Construction real estate	-	-	-	-	4,705	4,705
Consumer loans – vehicle	146	6	152	-	13,702	13,854
Consumer overdraft LOC	7	4	11	-	260	271
Consumer loans:						
Mobile home	37	-	37	-	1,852	1,889
Home Improvement	-	-	-	-	269	269
Other	99	28	127	-	13,227	13,354
MasterCard/VISA	23	9	32	-	3,601	3,633
Total	$ 4,073	$ 592	$ 4,665	$ 3,092	$ 476,295	$ 484,052
2013						
Agricultural loans	$ -	$ -	$ -	$ -	$ 4,348	$ 4,348
Commercial loans	104	-	104	188	36,993	37,285
Commercial overdraft LOC	-	-	-	-	1,033	1,033
Commercial non-profit/political subdivisions	-	-	-	-	1,010	1,010
Open-end home equity	347	150	497	67	35,073	35,637
1 – 4 family real estate (1st mortgages)	3,530	891	4,421	1,272	127,376	133,069
1 – 4 family real estate (Jr. mortgages)	142	7	149	-	6,019	6,168
Multifamily real estate	-	-	-	276	32,776	33,052
Farm real estate	-	-	-	-	10,311	10,311
Non-farm/non-residential real estate	161	41	202	2,801	167,154	170,157
Construction real estate	-	-	-	-	11,608	11,608
Consumer loans – vehicle	270	12	282	-	13,255	13,537
Consumer overdraft LOC	6	1	7	-	299	306
Consumer loans:						
Mobile home	24	-	24	-	1,935	1,959
Home Improvement	2	-	2	-	208	210
Other	137	21	158	-	11,345	11,503
MasterCard/VISA	69	37	106	-	3,449	3,555
Total	$ 4,792	$1,160	$ 5,952	$ 4,604	$ 464,192	$ 474,748

NOTE 7 - LOANS (CONTINUED)

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. The following presents loans as of December 31, 2014 and 2013 that are collectively evaluated for impairment and are not considered to be impaired (dollars in thousands):

2014	**Pass**	**Special mention**	**Sub-standard**	**Doubtful**	**Not rated**	**Total**
Agricultural loans	$ 3,345	$ -	$ -	$ -	$ -	$ 3,345
Commercial loans	45,433	5	681	-	-	46,119
Commercial overdraft LOC	-	-	-	-	201	201
Commercial non-profit/political subdivisions	856	-	-	-	-	856
Open-end home equity	34,436	245	311	-	-	34,992
1 – 4 family real estate (1st mortgages)	118,274	2,599	1,729	-	-	122,602
1 – 4 family real estate (Jr. mortgages)	3,842	121	22	-	-	3,985
Multifamily real estate	35,982	-	2,195	-	-	38,177
Farm real estate	8,509	-	110	-	-	8,619
Non-farm/non-residential real estate	162,207	1,008	13,182	-	-	176,397
Construction real estate	4,705	-	-	-	-	4,705
Consumer loans – vehicle	13,731	109	14	-	-	13,854
Consumer overdraft LOC	-	-	-	-	271	271
Consumer loans:						
Mobile home	1,861	28	-	-	-	1,889
Home improvement	269	-	-	-	-	269
Other	13,053	220	81	-	-	13,354
MasterCard/VISA	-	-	-	-	3,633	3,633
Total	$ 446,503	$ 4,335	$18,325	$ -	$ 4,105	$ 473,268
2013						
Agricultural loans	$ 4,348	$ -	$ -	$ -	$ -	$ 4,348
Commercial loans	36,379	160	28	-	-	36,567
Commercial overdraft LOC	-	-	-	-	973	973
Commercial non-profit/political subdivisions	1,010	-	-	-	-	1,010
Open-end home equity	34,561	400	278	-	-	35,239
1 – 4 family real estate (1st mortgages)	125,625	2,220	2,427	-	-	130,272
1 – 4 family real estate (Jr. mortgages)	5,936	138	86	-	-	6,160
Multifamily real estate	30,457	-	2,319	-	-	32,776
Farm real estate	10,191	120	-	-	-	10,311
Non-farm/non-residential real estate	150,434	10,910	2,806	-	-	164,150
Construction real estate	11,608	-	-	-	-	11,608
Consumer loans – vehicle	13,425	65	47	-	-	13,537
Consumer overdraft LOC	-	-	-	-	306	306
Consumer loans:						
Mobile home	1,951	-	8	-	-	1,959
Home improvement	210	-	-	-	-	210
Other	11,224	248	31	-	-	11,503
MasterCard/VISA	-	-	-	-	3,555	3,555
Total	$ 437,359	$ 14,261	$ 8,030	$ -	$ 4,834	$ 464,484

NOTE 7 - LOANS (CONTINUED)

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan clients of the Bank. Such loans are made in the ordinary course of business in accordance with the Bank's normal lending policies, including the interest rate charged and collateralization, and do not represent more than a normal collection risk. Such loans amounted to $1,554,000 and $1,398,000 at December 31, 2014 and 2013, respectively.

The following is a summary of activity during 2014, 2013, and 2012, with loan renewals included in additions and repayments (dollars in thousands):

	Balance at beginning	Additions	Repayments	Balance at end
2014	$ 1,398	$1,059	$ 903	$ 1,554
2013	$ 739	$ 867	$ 208	$ 1,398
2012	$ 860	$ 229	$ 350	$ 739

Additions for 2013 include $576,000 from new directors resulting from the business combination described in Note 3.

Deposits to officers, directors, and employees of the Bank approximated $4,484,000 as of December 31, 2014, and $3,956,000 at December 31, 2013.

NOTE 8 - ALLOWANCE FOR LOAN LOSSES

The following presents the balances and activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	Commercial	Residential real estate	Non-residential real estate	Construction real estate	Consumer	Credit card	Total
Balance at December 31, 2013	$ 456	$ 1,885	$ 1,000	$ 464	$ 164	$ 73	$ 4,042
Provision (credit) for loan losses	100	169	647	(317)	107	34	740
Losses charged off	(90)	(346)	(60)	-	(68)	(48)	(612)
Recoveries	13	9	48	-	8	16	94
Balance at December 31, 2014	$ 479	$ 1,717	$ 1,635	$ 147	$ 211	$ 75	$ 4,264
Balance at December 31, 2012	$ 621	$ 1,948	$ 1,367	$ 184	$ 127	$ 78	$ 4,325
Provision (credit) for loan losses	(178)	284	(203)	280	59	33	275
Losses charged off	-	(360)	(169)	-	(73)	(47)	(649)
Recoveries	13	13	5	-	51	9	91
Balance at December 31, 2013	$ 456	$ 1,885	$ 1,000	$ 464	$ 164	$ 73	$ 4,042
Balance at December 31, 2011	$ 615	$ 1,905	$ 1,926	$ 179	$ 84	$ 69	$ 4,778
Provision (credit) for loan losses	(7)	628	(232)	5	105	26	525
Losses charged off	(2)	(602)	(382)	-	(75)	(23)	(1,084)
Recoveries	15	17	55	-	13	6	106
Balance at December 31, 2012	$ 621	$ 1,948	$ 1,367	$ 184	$ 127	$ 78	$ 4,325

NOTE 9 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2014 and 2013 (dollars in thousands):

	2014	2013
Land and improvements	$ 2,867	$ 2,728
Buildings	13,072	13,083
Equipment	8,359	7,731
	24,298	23,542
Less accumulated depreciation	14,598	13,813
Premises and equipment, net	$ 9,700	$ 9,729

Depreciation of premises and equipment amounted to $785,000 in 2014, $719,000 in 2013, and $757,000 in 2012.

NOTE 10 - SECONDARY MARKET LENDING

As part of its normal business activity, the Bank services loans for others, including substantially all qualifying fixed rate residential mortgage loans which it originates and sells in the secondary market with servicing retained. Serviced loans are not reported as assets of the Bank and amounted to $170,173,000 and $160,150,000 as of December 31, 2014 and 2013, respectively.

Loans sold in the secondary market amounted to $26,309,000 in 2014, $12,241,000 in 2013, and $8,052,000 in 2012, resulting in gain on sale of loans of $699,000 in 2014, $331,000 in 2013, and $246,000 in 2012.

The following is a summary of activity for capitalized mortgage servicing rights for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	2014	2013	2012
Beginning of year	$1,315	$ 144	$ 141
Business combination	-	1,135	-
Capitalized servicing rights	224	104	65
Amortized to expense	(262)	(68)	(62)
End of year	$1,277	$ 1,315	$ 144

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

NOTE 11 - DEPOSITS

Time deposits at December 31, 2014 that included individual deposits of $250,000 and over amounted to $17,461,000. Time deposits at December 31, 2013 that included individual deposits of $100,000 and over amounted to $59,060,000.

At December 31, 2014, the scheduled maturities of time deposits were as follows (dollars in thousands):

2015	$ 74,587
2016	41,820
2017	19,825
2018	16,346
2019	24,088
Thereafter	5,718
Total	$ 182,384

NOTE 12 - BORROWED FUNDS

Borrowed funds consisted of the following at December 31, 2014 and 2013 (dollars in thousands):

	2014	2013
Federal Home Loan Bank (FHLB):		
Secured note, with interest at 4.26%, due March 2014	$ -	$ 3,031
Secured note, with interest at 2.79%, due October 2014	-	1,021
Secured note, with interest at 4.45%, due February 2017	5,000	5,000
Secured note, with interest at 1.87%, due February 2021	931	1,224
	$ 5,931	$ 10,276
Great Lakes Bankers Bank (GLBB):		
Term note payable in quarterly installments of $337,000 including interest at the greater of prime rate (3.25% at December 31, 2014) or 4.5% with any remaining principal due January 1, 2017. Loan is secured by certain assets of the Corporation as stated in the pledge agreement dated October 20, 2011.	2,890	4,070
Total	$ 8,821	$ 14,346

Future maturities of borrowed funds at December 31, 2014 were as follows (dollars in thousands):

2015	$ 1,458
2016	1,483
2017	5,521
2018	136
2019	114
2020	95
2021	14
Total	$ 8,821

The FHLB notes require monthly interest payments and are secured by stock in the FHLB of Cincinnati and eligible mortgage loans totaling $301,766,000 at December 31, 2014.

The GLBB term note contains certain financial covenants which require the Corporation and Bank to, among other things, maintain minimum return on equity, return on assets, and debt service coverage ratios (as defined), as well as asset quality and liquidity levels.

At December 31, 2014, the Bank has available borrowings of $68,032,000 under its line of credit with the Federal Home Loan Bank. In addition, the Bank had $10,000,000 of short-term borrowing availability at December 31, 2014, under lines of credit with one correspondent bank.

NOTE 13 - SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

NOTE 14 - NON-INTEREST EXPENSES

The following is a summary of non-interest expenses for the years ended December 31, 2014, 2013, and 2012 (dollars in thousands):

	2014	2013	2012
Salaries, wages, and employee benefits	$ 12,366	$ 11,016	$ 8,922
Occupancy of premises	1,140	893	961
Amortization of core deposit intangible assets	1,011	272	400
FDIC premium assessments	523	410	392
Equipment and vehicle	1,552	1,386	1,242
Professional and examination	815	1,374	766
State franchise and other taxes	643	680	643
Postage, stationery, and supplies	634	476	530
Advertising and marketing	435	334	292
Third-party computer processing	194	183	210
MasterCard franchise and processing	294	191	168
Loan collection and repossession fees	323	293	381
ATM network and processing fees	484	371	357
Other	1,515	1,688	1,153
Total non-interest expenses	$ 21,929	$ 19,567	$ 16,417

NOTE 15 - FEDERAL INCOME TAXES

The provision for federal income taxes consisted of the following for 2014, 2013, and 2012 (dollars in thousands):

	2014	2013	2012
Current	$ 2,326	$ 453	$ 535
Deferred	439	439	206
Total	$ 2,765	$ 892	$ 741

The income tax provision attributable to income from operations differs from the amounts computed by applying the U.S. federal income tax rate of 34% to income before federal income taxes as a result of the following (dollars in thousands):

	2014	2013	2012
Expected tax using statutory tax rate of 34%	$ 3,870	$ 1,815	$ 1,899
Increase (decrease) in tax resulting from:			
Tax-exempt income on state and municipal securities and political subdivision loans	(1,029)	(1,074)	(1,033)
Interest expense associated with carrying certain state and municipal securities and political subdivision loans	19	21	30
Increase in cash value of life insurance policies	(103)	(46)	(109)
Nondeductible merger expenses	-	170	-
Other, net	8	6	(46)
Total	$ 2,765	$ 892	$ 741

The deferred federal income tax provision of $439,000 in 2014 and in 2013, and $206,000 in 2012, 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.

NOTE 15 - FEDERAL INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of deferred tax liabilities and deferred tax assets at December 31, 2014 and 2013 are presented below (dollars in thousands):

	2014	2013
Deferred tax assets:		
Purchase accounting basis difference	$ 2,029	$ 2,735
Allowance for loan losses	1,336	1,060
Accrued expenses and other	762	821
Alternative minimum tax credit carryforwards	-	18
Total deferred tax assets	4,127	4,634
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	1,874	507
Purchase accounting basis difference	1,877	2,066
Depreciation of premises and equipment	275	260
Federal Home Loan Bank stock dividends	573	581
Mortgage servicing rights	435	447
Deferred loan costs and other	290	164
Total deferred tax liabilities	5,324	4,025
Net deferred tax assets (liabilities)	$ (1,197)	$ 609

Net deferred tax liabilities at December 31, 2014 are included in other liabilities and net deferred tax assets at December 31, 2013 are included in other assets in the accompanying consolidated balance sheets.

The alternative minimum tax credit carryforwards of $18,000 at December 31, 2013 was utilized in 2014 because computed regular tax exceeds the alternative minimum tax.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2014 and 2013.

In management's determination, the Corporation has no tax positions for which it deems reasonably possible that the total amounts of the unrecognized tax benefit will significantly increase or decrease within the 12 months subsequent to December 31, 2014. The tax years that remain open and subject to examination as of December 31, 2014 are years 2011 – 2014 for Federal and the State of Ohio.

NOTE 16 - EMPLOYEE BENEFITS

The Bank sponsors The Croghan Colonial Bank 401(k) Profit Sharing Plan (The Plan), a defined contribution plan which provides for both profit sharing and employer matching contributions. The Plan permits the investing in the Corporation's stock subject to various limitations. The Bank's profit sharing and matching contributions to the 401(k) profit sharing plan for the years ended December 31, 2014, 2013, and 2012 amounted to $538,000, $423,000, and $372,000, respectively. As of December 31, 2014, the Plan held 25,545 shares of the Corporation's common stock.

The Bank has entered into various split-dollar life insurance arrangements, including agreements with certain officers and employees of the Bank to provide for supplemental retirement benefits. All split-dollar policies required the payment of single premiums. The cash value of all split-dollar policies amounted to $17,085,000 and $16,810,000 at December 31, 2014 and 2013, respectively.

In connection with the agreements, the Bank provided an estimated liability for accumulated supplemental retirement benefits of $392,000 at December 31, 2014 and $379,000 at December 31, 2013, which is included in other liabilities in the accompanying consolidated balance sheets. The Bank has also provided an estimated liability for certain salary continuation benefits to former officers of Indebancorp's wholly-owned bank subsidiary as more fully described in Note 3.

The Bank recognized a provision for deferred compensation of $13,000 in 2014, $13,000 in 2013, and $11,000 in 2012.

No other postretirement or postemployment benefits are offered to retirees or employees.

NOTE 17 - STOCK-BASED COMPENSATION

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

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

The Corporation issued 28,869 options during 2011 at an exercise price of $24.99 under the 2002 plan. Following is a summary of activity for stock options for the years ended December 31, 2014, 2013, and 2012:

	2014	2013	2012
Outstanding, beginning of year	27,494	28,869	28,869
Granted	-	-	-
Exercised	(7,061)	-	-
Forfeited	(2,750)	(1,375)	-
Outstanding, end of year	17,683	27,494	28,869

The options vest over a three-year period on the anniversary date of issuance. At December 31, 2014, 17,863 options were exercisable with a weighted average remaining contractual term of 6 years.

The fair value of options granted is estimated at the date of grant using the Black Scholes option pricing model. Following are assumptions used in calculating the fair value of the options issued in 2011:

Weighted-average fair value of options granted	$ 3.62
Average dividend yield	5.0%
Expected volatility	25.0%
Risk-free interest rate	2.85%
Expected term (in years)	8

Compensation expense related to issued stock options amounted to a credit, due to the forfeited shares in the amount of $3,000 in 2014 and an expense of $30,000 in 2013. As of December 31, 2014, all expenses related to the stock options has been accounted for fully.

Restricted stock awards may also be issued under the 2012 Plan. The Corporation granted 4,970 shares of restricted stock in 2014. A summary of restricted stock activity for 2014 and 2013 activity is as follows:

	2014		2013	
	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value
Nonvested at beginning of year	4,200	$31.21	5,250	$31.21
Granted	4,970	34.75	-	-
Vested	(1,447)	-	(1,050)	-
Forfeited	(700)	31.21	-	31.21
Nonvested at end of year	7,023	$33.19	4,200	$31.21

Compensation expense relating to restricted stock is recognized over the vesting period based on the market value of the shares on the issue date amounting to $97,000 in 2014 and $29,000 in 2013. As of December 31, 2014, there was $199,000 of total unrecognized compensation cost related to unvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 3.7 years. Restricted stock awards vest over a five year period.

NOTE 18 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

The following financial instruments whose contract amount represents credit risk were outstanding at December 31, 2014 and 2013 (dollars in thousands):

	Contract amount	
	2014	**2013**
Commitments to extend credit, including commitments to grant loans and unfunded commitments under lines of credit	$ 109,813	$ 117,684
Standby letters of credit	$ 1,394	$ 1,693

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

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party and are reviewed for renewal at expiration. All outstanding standby letters of credit at December 31, 2014 expire in 2015. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The Bank requires collateral supporting these commitments when deemed necessary.

NOTE 19 - REGULATORY MATTERS

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2014 and 2013, that the Corporation and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2014, the most recent notification from federal and state banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 19 - REGULATORY MATTERS (CONTINUED)

The actual capital amounts and ratios of the Corporation and the Bank as of December 31, 2014 and 2013 are also presented in the following (dollars in thousands):

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2014						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 67,660	13.2%	$ 40,956	≥ 8.0%	N/A	N/A
Bank	70,053	13.7%	40,928	≥ 8.0%	$ 51,160	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	63,396	12.4%	20,478	≥ 4.0%	N/A	N/A
Bank	65,789	12.9%	20,464	≥ 4.0%	30,696	≥ 6.0%
Tier I Capital (to Average Assets)						
Consolidated	63,396	8.4%	30,214	≥ 4.0%	N/A	N/A
Bank	65,789	8.7%	30,200	≥ 4.0%	37,751	≥ 5.0%
As of December 31, 2013						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 60,078	11.8%	$ 40,678	≥ 8.0%	N/A	N/A
Bank	63,616	12.6%	40,555	≥ 8.0%	$ 50,693	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	56,036	11.0%	20,339	≥ 4.0%	N/A	N/A
Bank	59,574	11.8%	20,277	≥ 4.0%	30,416	≥ 6.0%
Tier I Capital (to Average Assets)						
Consolidated	56,036	8.6%	26,089	≥ 4.0%	N/A	N/A
Bank	59,574	9.1%	26,075	≥ 4.0%	32,594	≥ 5.0%

On a parent company only basis, the Corporation's primary source of funds are dividends paid by the Bank. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations, and to prudent and sound banking principles. Generally, subject to certain minimum capital requirements, the Bank may declare a dividend without the approval of the State of Ohio Division of Financial Institutions, unless the total dividends in a calendar year exceed the total of its net profits for the year combined with its retained profits of the two preceding years. Under these provisions, at December 31, 2014 the Bank did not have the ability to pay any dividends without the need to obtain the approval of the State of Ohio Division of Financial Institutions, due to the payout that was required in the Indebancorp transaction described in Note 3.

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

NOTE 20 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION

A summary of condensed financial information of the parent company as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 was as follows (dollars in thousands):

CONDENSED BALANCE SHEETS	2014	2013
Assets:		
Cash	$ 164	$ 57
Dividends receivable from subsidiary	731	726
Investment in subsidiary	96,012	88,586
Available-for-sale security	350	350
Other asset	68	237
Total assets	$ 97,325	$ 89,956
Liabilities:		
Borrowed funds	$ 2,890	$ 4,070
Dividends and other payables	816	838
Total liabilities	3,706	4,908
Stockholders' equity:		
Common stock	31,328	31,328
Surplus	13,241	13,361
Retained earnings	53,092	47,460
Accumulated other comprehensive income	3,637	983
Treasury stock	(7,679)	(8,084)
Total stockholders' equity	93,619	85,048
Total liabilities and stockholders' equity	$ 97,325	$ 89,956

CONDENSED STATEMENTS OF OPERATIONS	2014	2013	2012
Income – dividends from subsidiary	$ 4,263	$ 12,576	$ 3,252
Professional fees, interest, and other expenses	(200)	(697)	(400)
Income before income taxes and equity in undistributed net income of subsidiary	4,063	11,879	2,852
Federal income tax credit	(68)	(237)	(136)
Income before equity in undistributed net income of subsidiary	4,131	12,116	2,988
Equity in net income of subsidiary, less dividends	4,486	(7,669)	1,855
Net income	$ 8,617	$ 4,447	$ 4,843

NOTE 20 - CONDENSED PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 8,617	$ 4,447	$ 4,843
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiary, less dividends	(4,486)	7,669	(1,855)
Decrease (increase) in dividends receivable	(5)	(726)	535
Decrease (increase) in other assets	169	(101)	(84)
Increase (decrease) in other liabilities	(72)	56	37
Net cash provided by operating activities	4,223	11,345	3,476
Cash flows from financing activities:			
Principal payments on borrowed funds	(1,180)	(1,129)	(801)
Cash dividends paid	(2,936)	(1,612)	(2,679)
Cash paid for business combination	-	(8,574)	-
Net cash used in financing activities	(4,116)	(11,315)	(3,480)
Net increase (decrease) in cash	107	30	(4)
Cash at beginning of year	57	27	31
Cash at end of year	$ 164	$ 57	$ 27

Under a program initially approved by the Board of Directors in 2002, the Corporation periodically purchased shares of its common stock in the over-the-counter market. During the first quarter of 2012, the Board of Directors opted not to renew the program.

NOTE 21 - FAIR VALUE MEASUREMENTS

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

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

NOTE 21 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

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

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy due to the lack of observable quotes in inactive markets for those instruments at December 31, 2014 and 2013.

The following summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
2014				
Recurring:				
Securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ -	$ 123,643	$ -	$ 123,643
Obligations of states and political subdivisions	-	95,551	-	95,551
Other	-	350	-	350
Total	$ -	$ 219,544	$ -	$ 219,544
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 865	$ 865
Impaired loans	-	-	7,854	7,854
Total	$ -	$ -	$ 8,719	$ 8,719

NOTE 21 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
2013				
Recurring:				
Securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	$ -	$ 153,465	$ -	$ 153,465
Obligations of states and political subdivisions	-	98,657	-	98,657
Other	-	350	-	350
Total	$ -	$ 252,472	$ -	$ 252,472
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 876	$ 876
Impaired loans	-	-	6,458	6,458
Total	$ -	$ -	$ 7,334	$ 7,334

Impaired loans are reported net of an allowance for loan losses of $382,000 at December 31, 2014 and $437,000 at December 31, 2013.

Other real estate owned, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount as of December 31, 2014 of $865,000, which is made up of the balance of $957,000, net of a valuation allowance of $92,000. Other real estate owned had a net carrying amount of $876,000 made up of the balance of $975,000, net of a valuation allowance of $99,000, at December 31, 2013. Write-downs of other real estate owned amounted to $57,000 and $85,000 for the years ended December 31, 2014 and 2013, respectively, and are included in other non-interest expenses.

There were no transfers of financial instruments between Levels 1 and 2 during 2014 and 2013.

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

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

In connection with the business combination described in Note 3, certain financial instruments were acquired or assumed and were recorded at their estimated fair values as of the date of acquisition. In connection with the branch acquisition described in Note 4, loans acquired of $21,503,000 and deposits assumed of $111,075,000 were recorded at their estimated fair values as of the December 16, 2011 closing date based on the present value of the future incremental cash flows. Certain inputs used in these calculations would be unobservable to a market participant making them level 3 inputs.

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would typically include government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Corporation did not have any securities classified as Level 1 or Level 3 at December 31, 2014 and 2013.

NOTE 21 - FAIR VALUE MEASUREMENTS (CONTINUED)

Impaired Loans

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

Other Real Estate Owned

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

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of recognized financial instruments at December 31, 2014 and 2013, as well as indication of where the instrument falls within the fair value hierarchy described in Note 21, are as follows (dollars in thousands):

		2014		2013	
	Fair value hierarchy	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS					
Cash and cash equivalents	Level 1	$ 13,647	$ 13,647	$ 27,710	$ 27,710
Securities	See Note 21	225,407	225,407	257,509	257,509
Loans, net	Level 3	479,788	492,020	470,706	485,760
Total		$ 718,842	$ 731,074	$ 755,925	$ 770,979
FINANCIAL LIABILITIES					
Deposits	Level 2	$ 649,270	$ 650,806	$ 688,921	$ 690,672
Federal funds purchased and securities sold under repurchase agreements	Level 1	22,450	22,450	24,577	24,577
Borrowed funds	Level 2	8,821	9,341	14,346	14,472
Total		$ 680,541	$ 682,597	$ 727,844	$ 729,721

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

The Bank also has unrecognized financial instruments which relate to commitments to extend credit and standby letters of credit. The contract amount of such financial instruments was $111,206,000 at December 31, 2014 and $119,377,000 at December 31, 2013. The fair value of such instruments is not considered significant since they represent commitments at current interest rates.

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

Cash and Cash Equivalents

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

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities

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

Loans

Fair value for loans is estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed-rate loans, the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows. The estimated value of credit card loans is based on existing loans and does not include the value that relates to estimated cash flows from new loans generated from existing cardholders over the remaining life of the portfolio.

Deposit Liabilities

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

Other Financial Instruments

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

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

NOTE 23 - COMMITMENTS AND CONTINGENCIES

The Bank has entered into multi-year agreements to lease certain of its facilities, as well as equipment under various short-term operating leases through June 2015. Rent expense under these agreements amounted to $15,000 in 2014, $47,000 in 2013, and $76,000 in 2012. Future minimum lease payments under long-term operating leases aggregate $39,000 at December 31, 2014 as follows: 2015, $36,000; and 2016, $3,000.

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

BRANCH LOCATIONS

FREMONT MAIN

323 Croghan Street
Fremont, OH 43420
419.332.7301

FREMONT EAST

1315 East State Street
Fremont, OH 43420
419.355.2342

FREMONT WEST

2001 West State Street
Fremont, OH 43420
419.355.2352

CLYDE

100 North Main Street
Clyde, OH 43410
419.547.9525

GREEN SPRINGS

200 North Broadway Street
Green Springs, OH 44836
419.639.2225

NORWALK

60 Whittlesey Avenue
Norwalk, OH 44857
419.668.2507

OREGON

4157 Navarre Avenue
Oregon, OH 43616
419.691.6264

PORT CLINTON CATAWBA

2820 East Harbor Road
Port Clinton, OH 43452
419.732.6150

TIFFIN DOWNTOWN

48 East Market Street
Tiffin, OH 44883
419.447.8777

ADDITIONAL ATM LOCATIONS

- Maumee Bay State Park, Oregon
- Put-In-Bay

FREMONT BALLVILLE

1600 River Street
Fremont, OH 43420
419.355.2361

FREMONT NORTH

910 Sean Drive
Fremont, OH 43420
419.334.7188

BELLEVUE

One Union Square
Bellevue, OH 44811
419.483.7395

CURTICE

7182 North Lucas Street
Curtice, OH 43412
419.836.7722

MONROEVILLE

11 Monroe Street
Monroeville, OH 44847
419.465.2596

OAK HARBOR

147 West Water Street
Oak Harbor, OH 43449
419.898.5741

PERRYSBURG LPO

900 W. South Boundary Street, Bldg. 4A
Perrysburg, OH 43551
419.898.8351

PORT CLINTON DOWNTOWN

226 East Perry Street
Port Clinton, OH 43452
Opening Spring 2015

TIFFIN WESTGATE

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