

**2023**  
**Annual Report**





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Dear Fellow Shareholders,

Every year has its own set of unique challenges in the banking industry and this year was no different.

2023 brought the fastest increase in interest rates over the last 40 years due to historically high inflation and three of the four largest bank failures in the history of our country. An erosion of trust sent widespread deposit concerns permeating through the banking & financial industry. These events also led to increased bank regulation, which continues to change and be burdensome.

Our job and responsibility as leaders of banks are to earn and maintain your trust. We adapt our business models and execute to overcome challenges, all while understanding we operate in a small margin-for-error environment. We engage in banking because of our ability to enable businesses and communities to prosper, grow and expand, all while creating value for our shareholders. We do this job, investing ourselves and our capital, because as critically important institutions we support the well-being of our local communities and businesses.

When it comes to supporting closely held businesses, it is the community banks like CFBank that do the heavy lifting. Not the regional or money center banks. But we are more than a financial investment and banking services provider. As a boutique bank, we are an insightful, engaged team that strive to assist your personal and professional growth. We believe CFBank, because of our unique contributions and civic involvement, is deserving of your trust and deposit business.

Looking ahead, we expect continued success capturing quality new business relationships. Much of our new business opportunities come from regional bank competitors, that unlike us have either curtailed or suspended business lending.

We are experiencing growth in all our fee generating businesses including cash management products & services, home mortgage lending, business credit cards, along with loan related fees. Our continued product growth and innovation support our client driven atmosphere.

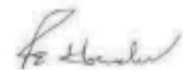
Additionally, in today's favorable competitive business climate, we have much success attracting top caliber talent to expand as well as deepen our regional banking teams. Our talent brings the positive attributes of big banks, without the bureaucracy.

Overall, for 2024, we see opportunities overcoming challenges as our emerging theme.

Our Best is yet Ahead!



Timothy T. O'Dell  
President and CEO



Robert E. Hoeweler  
Chairman of the Board



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### CONDENSED CONSOLIDATED FINANCIAL DATA

The following information is derived from and should be read in conjunction with our audited Consolidated Financial Statements, the related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-K.

|                                                 | At December 31,        |              |              |              |            |
|-------------------------------------------------|------------------------|--------------|--------------|--------------|------------|
|                                                 | 2023                   | 2022         | 2021         | 2020         | 2019       |
|                                                 | (Dollars in thousands) |              |              |              |            |
| <b>Selected Financial Condition Data:</b>       |                        |              |              |              |            |
| Total assets                                    | \$ 2,058,615           | \$ 1,820,174 | \$ 1,495,589 | \$ 1,476,995 | \$ 880,545 |
| Cash and cash equivalents                       | 261,595                | 151,787      | 166,591      | 221,594      | 45,879     |
| Securities available for sale                   | 8,092                  | 10,442       | 16,347       | 8,701        | 8,174      |
| Equity securities                               | 5,000                  | 5,000        | 5,000        | 5,000        | -          |
| Loans held for sale                             | 1,849                  | 580          | 27,988       | 283,165      | 135,711    |
| Loans and leases, net <sup>(1)</sup>            | 1,694,133              | 1,572,255    | 1,214,149    | 895,344      | 663,303    |
| Allowance for credit losses on loans and leases | 16,865                 | 16,062       | 15,508       | 17,022       | 7,138      |
| Nonperforming assets                            | 5,722                  | 761          | 997          | 695          | 2,439      |
| Foreclosed assets                               | -                      | -            | -            | -            | -          |
| Deposits                                        | 1,744,057              | 1,527,922    | 1,246,352    | 1,113,070    | 746,323    |
| FHLB advances and other debt                    | 109,995                | 109,461      | 89,727       | 214,426      | 29,017     |
| Subordinated debentures                         | 14,961                 | 14,922       | 14,883       | 14,844       | 14,806     |
| Total stockholders' equity                      | 155,374                | 139,248      | 125,330      | 110,210      | 80,664     |

|                                                               | For the year ended December 31, |           |           |           |           |
|---------------------------------------------------------------|---------------------------------|-----------|-----------|-----------|-----------|
|                                                               | 2023                            | 2022      | 2021      | 2020      | 2019      |
|                                                               | (Dollars in thousands)          |           |           |           |           |
| <b>Summary of Operations:</b>                                 |                                 |           |           |           |           |
| Total interest income                                         | \$ 108,279                      | \$ 67,764 | \$ 52,348 | \$ 42,386 | \$ 35,104 |
| Total interest expense                                        | 60,639                          | 18,974    | 10,309    | 14,578    | 13,404    |
| Net interest income                                           | 47,640                          | 48,790    | 42,039    | 27,808    | 21,700    |
| Provision for loan and lease losses                           | 2,317                           | 787       | (1,600)   | 10,915    | -         |
| Net interest income after provision for loan and lease losses | 45,323                          | 48,003    | 43,639    | 16,893    | 21,700    |
| Noninterest income:                                           |                                 |           |           |           |           |
| Net gain on sale of loans                                     | 185                             | 1,009     | 7,359     | 58,366    | 10,767    |
| Other                                                         | 3,846                           | 2,201     | 4,281     | 1,627     | 953       |
| Total noninterest income                                      | 4,031                           | 3,210     | 11,640    | 59,993    | 11,720    |
| Noninterest expense                                           | 28,369                          | 28,621    | 32,461    | 40,603    | 21,379    |
| Income before income taxes                                    | 20,985                          | 22,592    | 22,818    | 36,283    | 12,041    |
| Income tax expense                                            | 4,048                           | 4,428     | 4,365     | 6,675     | 2,440     |
| Net income                                                    | \$ 16,937                       | \$ 18,164 | \$ 18,453 | \$ 29,608 | \$ 9,601  |

## Management's Discussion and Analysis of Financial Condition and Results of Operations

|  | At or for the year ended December 31, |      |      |      |      |
|--|---------------------------------------|------|------|------|------|
|  | 2023                                  | 2022 | 2021 | 2020 | 2019 |
|  | (Dollars in thousands)                |      |      |      |      |

### Selected Financial Ratios and Other Data:

#### Performance Ratios <sup>(2)</sup>

|                                                                 |         |         |         |         |         |
|-----------------------------------------------------------------|---------|---------|---------|---------|---------|
| Return on average assets                                        | 0.88%   | 1.11%   | 1.26%   | 2.59%   | 1.30%   |
| Return on average equity                                        | 11.46%  | 13.69%  | 15.58%  | 32.04%  | 17.57%  |
| Average yield on interest-earning assets <sup>(3)</sup>         | 5.89%   | 4.37%   | 3.79%   | 3.89%   | 4.98%   |
| Average rate paid on interest-bearing liabilities               | 3.99%   | 1.55%   | 0.95%   | 1.64%   | 2.38%   |
| Average interest rate spread <sup>(4)</sup>                     | 1.90%   | 2.82%   | 2.84%   | 2.25%   | 2.60%   |
| Net interest margin, fully taxable equivalent <sup>(5)</sup>    | 2.59%   | 3.15%   | 3.04%   | 2.55%   | 3.08%   |
| Average interest-earning assets to interest bearing liabilities | 120.70% | 126.74% | 127.13% | 122.64% | 124.90% |
| Efficiency ratio <sup>(6)</sup>                                 | 54.90%  | 55.04%  | 60.47%  | 46.24%  | 63.97%  |
| Noninterest expenses to average assets                          | 1.47%   | 1.76%   | 2.22%   | 3.55%   | 2.89%   |
| Common stock dividend payout ratio                              | 8.75%   | 6.47%   | 4.69%   | 0.67%   | n/m     |

#### Capital Ratios: <sup>(2)</sup>

|                                                                                |        |        |        |        |        |
|--------------------------------------------------------------------------------|--------|--------|--------|--------|--------|
| Equity to total assets at end of period                                        | 7.55%  | 7.65%  | 8.38%  | 7.46%  | 9.16%  |
| Average equity to average assets                                               | 7.66%  | 8.14%  | 8.11%  | 8.07%  | 7.39%  |
| Tier 1 (core) capital to adjusted total assets (Leverage ratio) <sup>(7)</sup> | 9.76%  | 9.89%  | 11.29% | 9.74%  | 10.58% |
| Total capital to risk weighted assets <sup>(7)</sup>                           | 13.30% | 12.74% | 14.02% | 14.31% | 12.96% |
| Tier 1 (core) capital to risk weighted assets <sup>(7)</sup>                   | 12.17% | 11.65% | 12.77% | 13.05% | 11.97% |
| Common equity tier 1 capital to risk weighted assets <sup>(7)</sup>            | 12.17% | 11.65% | 12.77% | 13.05% | 11.97% |

#### Asset Quality Ratios: <sup>(2)</sup>

|                                                                                      |         |          |          |          |         |
|--------------------------------------------------------------------------------------|---------|----------|----------|----------|---------|
| Nonperforming loans to total loans <sup>(8)</sup>                                    | 0.33%   | 0.05%    | 0.08%    | 0.08%    | 0.36%   |
| Nonperforming assets to total assets <sup>(9)</sup>                                  | 0.28%   | 0.04%    | 0.07%    | 0.05%    | 0.28%   |
| Allowance for credit losses on loans and leases to total loans                       | 0.99%   | 1.01%    | 1.26%    | 1.87%    | 1.06%   |
| Allowance for credit losses on loan and leases to nonperforming loans <sup>(8)</sup> | 294.74% | 2110.64% | 1555.47% | 2449.21% | 292.66% |
| Net charge-offs (recoveries) to average loans                                        | 0.04%   | 0.02%    | (0.01%)  | 0.13%    | (0.02%) |

#### Per Share Data:

|                                                       |         |         |         |         |       |
|-------------------------------------------------------|---------|---------|---------|---------|-------|
| Basic earnings per common share                       | \$ 2.64 | \$ 2.84 | \$ 2.84 | \$ 4.53 | 2.05  |
| Diluted earnings per common share                     | 2.63    | 2.78    | 2.77    | 4.47    | 2.03  |
| Dividends declared per common share                   | 0.23    | 0.18    | 0.13    | -       | -     |
| Tangible book value per common share at end of period | 23.74   | 21.43   | 19.28   | 16.79   | 12.40 |

<sup>(1)</sup> Loans and leases, net represents the recorded investment in loans net of the allowance for credit losses on loans and leases (ACL – Loans).

<sup>(2)</sup> Asset quality ratios and capital ratios are end-of-period ratios. All other ratios are based on average monthly balances during the indicated periods.

<sup>(3)</sup> Calculations of yield are presented on a taxable equivalent basis using the federal income tax rate of 21%.

<sup>(4)</sup> The average interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.

<sup>(5)</sup> The net interest margin represents net interest income as a percent of average interest-earning assets.

<sup>(6)</sup> The efficiency ratio equals noninterest expense (excluding amortization of intangibles and foreclosed asset writedowns) divided by net interest income plus noninterest income (excluding gains or losses on securities transactions).

<sup>(7)</sup> Regulatory capital ratios of CFBank.

<sup>(8)</sup> Nonperforming loans consist of nonaccrual loans and other loans 90 days or more past due.

<sup>(9)</sup> Nonperforming assets consist of nonperforming loans and foreclosed assets.

n/m - not meaningful

## FORWARD LOOKING STATEMENTS

Statements in this Form 10-K that are not statements of historical fact are forward-looking statements which are made in good faith by us. Forward-looking statements include, but are not limited to: (1) projections of revenues, income or loss, earnings or loss per share of common stock, capital structure and other financial items; (2) plans and objectives of the management or Boards of Directors of Holding Company or CFBank; (3) statements regarding future events, actions or economic performance; and (4) statements of assumptions underlying such statements. Words such as "estimate," "strategy," "may," "believe," "anticipate," "expect," "predict," "will," "intend," "plan," "targeted," and the negative of these terms, or similar expressions, are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Various risks and uncertainties may cause actual results to differ materially from those indicated by our forward-looking statements, including, without limitation, those risks set forth in the section captioned "RISK FACTORS" in Part I, Item 1A of this Form 10-K.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. We caution you, however, that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. The forward-looking statements included in this Form 10-K speak only as of the date hereof. We undertake no obligation to publicly release revisions to any forward-looking statements to reflect events or circumstances after the date of such statements, except to the extent required by law.

## Business Overview

The Holding Company is a financial holding company that owns 100% of the stock of CFBank, which was formed in Ohio in 1892 and converted from a federal savings association to a national bank on December 1, 2016. Prior to December 1, 2016, the Holding Company was a registered savings and loan holding company. Effective as of December 1, 2016 and in conjunction with the conversion of CFBank to a national bank, the Holding Company became a registered bank holding company and elected financial holding company status with the FRB. Effective as of July 27, 2020, the Company changed its name from Central Federal Corporation to CF Bankshares Inc.

CFBank focuses on serving the financial needs of closely held businesses and entrepreneurs, by providing comprehensive Commercial, Retail, and Mortgage Lending services presence. In all regional markets, CFBank provides commercial loans and equipment leases, commercial and residential real estate loans and treasury management depository services, residential mortgage lending, and full-service commercial and retail banking services and products. CFBank seeks to differentiate itself from its competitors by providing individualized service coupled with direct customer access to decision-makers, and ease of doing business. We believe that CFBank matches the sophistication of much larger banks, without the bureaucracy. CFBank also offers its clients the convenience of online banking, mobile banking and remote deposit capabilities.

Most of our deposits and loans come from our market area. Our principal market area for loans and deposits includes the following counties: Franklin County through our office in Columbus, Ohio (formerly located in Worthington, Ohio until March 1, 2023); Delaware County, Ohio through our Polaris office in Columbus, Ohio; Cuyahoga County through our office in Woodmere, Ohio and our Ohio City office in Cleveland, Ohio; Summit County through our office in Fairlawn, Ohio; Hamilton County through our offices in Blue Ash, Ohio and our Red Bank office in Cincinnati, Ohio; and Marion County, Indiana through our office in Indianapolis. Because of CFBank's concentration of business activities in Ohio, the Company's financial condition and results of operations depend in large part upon economic conditions in Ohio.

**CECL Implementation.** In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU requires a new Current Expected Credit Losses ("CECL") methodology that replaces the previous "incurred loss" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio. CECL provides for an "expected loss" model for measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new CECL model requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied historically are still permitted, although the inputs to those techniques will reflect the full amount of expected credit losses. Organizations continue to use judgment to determine which loss estimation method is appropriate for their circumstances. ASU 2016-13 requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, ASU 2016-13 amended the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 was effective for the Company on January 1, 2023.

The CECL methodology required under ASU 2016-13 applies to loans held for investment, held to maturity debt securities, and off balance-sheet credit exposures. The ASU allows for several different methods of computing the allowance for credit losses: closed pool, vintage, average charge-off, migration, probability of default / loss given default, discounted cash flow, and regression. Based on its analysis of observable data, the Company concluded the average charge-off method to be the most appropriate and statistically relevant. A lookback to March 31, 2000 was utilized as the historical loss period due to its inclusion of several economic cycles and relevance to real estate secured assets.

Upon implementation of ASU 2016-13, the expected loss estimate is made up of a historical lookback of actual losses applied over the life of the loan portfolio and adjusted for qualitative factors and forecasted losses based on economic and forward-looking data applied over a reasonable and supportable forecast period.

The impact of the Company's adoption of ASU 2016-13 effective January 1, 2023 was a one-time cumulative-effect adjustment increasing our reserves for loans and unfunded commitments by \$49,000.

The qualitative impact of the new accounting standard is still directed by many of the same factors that impacted the previous methodology for computing the allowance for loan and lease losses (ALLL) including, but not limited to, economic conditions, quality and experience of staff, changes in the value of collateral, concentrations of credit in loan types or industries and changes to lending policies. In addition to this, the Company also uses reasonable and supportable forecasts. Examples of this are regression analyses of data from the Federal Open Market Committee quarterly economic projections for change in real GDP and of national unemployment.

***Repositioning of Residential Mortgage Business Model.*** In early 2021 a shift in the mortgage industry resulted in significantly fewer refinance opportunities and lower margins on residential mortgage loans. In response, the Company strategically scaled down and repositioned its Residential Mortgage Business and exited the direct-to-consumer mortgage business in favor of lending in our regional markets. Our Commercial Banking Business continues to experience strong growth and has become the primary driver of our earnings and performance.

***Recent Regulatory Developments.*** In March 2023, CFBank's primary federal regulator, the OCC, publicly released its CRA rating of "Needs to Improve" for CFBank as a result of the OCC's regularly scheduled evaluation covering 2020 through 2022. The Company believes that the "Needs to Improve" rating was primarily attributable to CFBank's legacy direct-to-consumer residential mortgage business. Beginning in 2021, CFBank strategically scaled down its residential mortgage business and exited the direct-to-consumer mortgage business in favor of lending in our regional markets. The Company believes that this change in our residential mortgage business and focus, together with changes in our branch network and other actions taken since 2021, have remediated these legacy issues. While CFBank's CRA rating remains "Needs to Improve," the Company is subject to additional requirements and conditions with respect to certain activities, including acquisitions of and mergers with other financial institutions and commencement of new activities. CFBank's next CRA evaluation is expected to commence in 2026.

### **Critical Accounting Policies and Estimates**

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. These policies are presented in Note 1 to our Consolidated Financial Statements. Some of these accounting policies are considered to be critical accounting policies, which are those policies that are both most important to the portrayal of the Company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Application of assumptions different than those used by management could result in material changes in our financial condition or results of operations. These policies, current assumptions and estimates utilized, and the related disclosure of this process, are determined by management and routinely reviewed with the Audit Committee of the Board of Directors. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements were appropriate given the factual circumstances at the time.

We have identified accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand our financial statements. The following discussion details the critical accounting policies and the nature of the estimates made by management.

***Determination of the allowance for credit losses on loans (ACL – Loans).*** The ACL - Loans represents the Company's best estimate of current expected credit losses (CECL) on loans and leases using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The CECL calculation is performed and evaluated quarterly and losses are estimated over the expected life of the loan. The level of the ACL - Loans is believed to be adequate to absorb all expected future losses inherent in the loan portfolio at the measurement date.

In calculating the ACL - Loans, the loan portfolio was pooled into loan segments with similar risk characteristics. Common characteristics include the type or purpose of the loan, underlying collateral and historical/expected credit loss patterns. In developing

the loan segments, the Company analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors.

The expected credit losses are measured over the life of each loan segment utilizing the average charge-off methodology combined with economic forecast models to estimate the current expected credit loss inherent in the loan portfolio. This approach is also leveraged to estimate the expected credit losses associated with unfunded loan commitments incorporating expected utilization rates.

The Company sub-segmented certain commercial portfolios by risk level where appropriate. The Company utilized a one-year reasonable and supportable economic forecast period.

The Company qualitatively adjusts model results for risk factors that are not inherently considered in the historical losses, but are nonetheless relevant in assessing the expected credit losses within the loan portfolio. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of (i) changes in economic conditions, (ii) changes in the nature and volume of the loan portfolio, (iii) changes in the existence, growth and effect of any concentrations in credit, (iv) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (v) changes in the quality of the credit review function, (vi) changes in the experience, ability and depth of lending management and staff, (vii) changes in the volume and severity of past due and adversely classified loans and the volume of non-accrual loans, (viii) changes in the value of underlying collateral for collateral-dependent loans, and (ix) other environmental factors such as regulatory, legal and technological considerations, as well as competition.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within the loan segments. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific reserve allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The fair value of collateral supporting collateral dependent loans is evaluated on a quarterly basis. Based on the variables involved and the fact that management must make judgments about outcomes that are inherently uncertain, the determination of the ACL - Loans is considered to be a critical accounting policy. Additional information regarding this policy is included in the section titled "Financial Condition - *Allowance for Credit Losses on Loans*" and in Notes 1, 4 and 6 in the accompanying Notes to Consolidated Financial Statements.

***Fair value of financial instruments.*** Another critical accounting policy relates to fair values of financial instruments, which are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Additional information is included in Notes 1 and 6 in the accompanying Notes to Consolidated Financial Statements.

***Mortgage banking derivatives.*** Another critical accounting policy relates to the fair value of mortgage banking derivatives. Mortgage banking derivatives include two types of commitments: rate lock commitments and forward loan commitments. The fair values of these mortgage derivatives are based on anticipated gains on the underlying loans and are based on valuation models using observable market data as of the measurement date. Changes in the fair value of the derivatives are reported currently in earnings, as other noninterest income. Changes in assumptions or in market conditions could significantly affect the estimates. Additional information is included in Notes 1, 6 and 17 in the accompanying Notes to Consolidated Financial Statements.

## General

Our net income is dependent primarily on net interest income, which is the difference between the interest income earned on loans and securities and our cost of funds, consisting of interest paid on deposits and borrowed funds. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand, the level of nonperforming assets and deposit flows.

Net income is also affected by, among other things, provisions for loan and lease losses, loan fee income, service charges, gains on loan sales, operating expenses, and taxes. Operating expenses principally consist of employee compensation and benefits, occupancy, advertising and marketing, data processing, professional fees, FDIC insurance premiums and other general and administrative expenses. Our results of operations are significantly affected by general economic and competitive conditions, changes in market interest rates and real estate values, government policies and actions of regulatory authorities. Our regulators have extensive discretion in their supervisory and enforcement activities, including the authority to impose restrictions on our operations, to classify our assets and to require us to increase the level of our allowance for credit losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our business, financial condition, results of operations and/or cash flows.

Management's discussion and analysis represents a review of our consolidated financial condition and results of operations for the periods presented. This review should be read in conjunction with our consolidated financial statements and related notes.

## Financial Condition

**General.** Assets totaled \$2.1 billion at December 31, 2023 and increased \$238.4 million, or 13.1%, from \$1.8 billion at December 31, 2022. The increase was primarily due to a \$121.9 million increase in net loan balances and a \$109.8 million increase in cash and cash equivalents.

**Cash and cash equivalents.** Cash and cash equivalents totaled \$261.6 million at December 31, 2023, and increased \$109.8 million, or 72.3%, from \$151.8 million at December 31, 2022. The increase in cash and cash equivalents was primarily attributed to an increase in deposits, partially offset by an increase in net loans.

**Securities.** Securities available for sale totaled \$8.1 million at December 31, 2023, and decreased \$2.3 million, or 22.5%, compared to \$10.4 million at December 31, 2022. The decrease was primarily due to principal maturities. Equity securities totaled \$5.0 million at both December 31, 2023 and December 31, 2022.

**Loans held for sale.** Loans held for sale totaled \$1.8 million at December 31, 2023 and increased \$1.3 million, or 218.8%, from \$580,000 at December 31, 2022.

**Loans and Leases.** Net loans and leases totaled \$1.7 billion at December 31, 2023 and increased \$121.9 million, or 7.8%, from \$1.6 billion at December 31, 2022. The increase was primarily due to a \$57.9 million increase in commercial real estate loan balances, a \$26.6 million increase in multi-family loan balances, a \$13.2 million increase in single-family residential loan balances, a \$12.5 million increase in commercial loan balances, a \$6.6 million increase in construction loan balances, and a \$5.2 million increase in home equity lines of credit. The increases in the aforementioned loan balances were related to increased sales activity and new relationships.

**Allowance for Credit Losses on Loans . (ACL – Loans)** The ACL – Loans totaled \$16.9 million at December 31, 2023, and increased \$803,000, or 5.0%, from \$16.1 million at December 31, 2022. The increase in the ACL - Loans is due to \$1.9 million in loan provision expense, partially offset by a \$409,000 reduction attributable to a one-time "Day 1" adjustment upon adoption of CECL on January 1, 2023 and \$646,000 in net charge-offs during the year ended December 31, 2023. The ratio of the ACL - Loans to total loans was 0.99% at December 31, 2023, compared to 1.01% at December 31, 2022.

The ACL - Loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans over the contractual term. Loans are charged off against the allowance when the uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. Adjustments to the ACL- Loans are reported in the income statement as a component of provision for credit loss. The Company has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses. Further information regarding the policies and methodology used to estimate the ACL - Loans is detailed in the accompanying notes to the Consolidated Financial Statements included in this Form 10-K.

## Financial Condition (continued)

Individually evaluated loans totaled \$3.5 million at December 31, 2023, and increased \$3.3 million, or 1884.9%, from \$175,000 at December 31, 2022. The increase was primarily due to three newly identified commercial loans during 2023 totaling \$3.4 million, partially offset by one commercial loan returning to collectively evaluated and principal payments during the year ended December 31, 2023. The amount of the ACL - Loans specifically calculated for individually evaluated loans totaled \$697,000 at December 31, 2023 and \$175 at December 31, 2022.

The reserve on individually evaluated loans is based on management's estimate of the present value of estimated future cash flows using the loan's effective rate or the fair value of collateral, if repayment is expected solely from the collateral. On at least a quarterly basis, management reviews each individually evaluated loan to determine whether it should have a reserve or partial charge-off. Management relies on appraisals or internal evaluations to help make this determination. Determination of whether to use an updated appraisal or internal evaluation is based on factors including, but not limited to, the age of the loan and the most recent appraisal, condition of the property and whether we expect the collateral to go through the foreclosure or liquidation process. Management considers the need for a downward adjustment to the valuation based on current market conditions and on management's analysis, judgment and experience. The amount ultimately charged-off for these loans may be different from the reserve, as the ultimate liquidation of the collateral and/or projected cash flows may be different from management's estimates.

Nonperforming loans, which are nonaccrual loans and loans at least 90 days past due but still accruing interest, totaled \$5.7 million at December 31, 2023, and increased \$5.0 million from \$761,000 at December 31, 2022. The increase in nonaccrual loans was primarily driven by seven commercial loans, totaling \$5.0 million, becoming nonaccrual during in 2023. The ratio of nonperforming loans to total loans was 0.33% at December 31, 2023 compared to 0.05% at December 31, 2022.

The following table presents information regarding the number and balance of nonperforming loans at December 31, 2023 and December 31, 2022.

|                                       | December 31, 2023 |                        | December 31, 2022 |         |
|---------------------------------------|-------------------|------------------------|-------------------|---------|
|                                       | # of loans        | Balance                | # of loans        | Balance |
|                                       |                   | (dollars in thousands) |                   |         |
| Commercial                            | 7                 | \$ 5,048               | 2                 | \$ 99   |
| Single-family residential real estate | 3                 | 627                    | 3                 | 641     |
| Home equity lines of credit           | 1                 | 17                     | 1                 | 18      |
| Other Consumer                        | 1                 | 30                     | 1                 | 3       |
| Total                                 | 12                | \$ 5,722               | 7                 | \$ 761  |

The Company adopted ASU 2022-02, *Financial Instruments- Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures*, during the first quarter of 2023. This amendment eliminated the TDR recognition and measurement guidance and, instead, required that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhanced existing disclosure requirements and introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. During the year ended December 31, 2023, the Company modified one commercial loan, totaling \$2.9 million, where the borrower was experiencing financial difficulty. The loan was modified to defer principal and interest payments for up to one year. For any period where the payments are deferred, the note will accrue at a higher rate of interest. The loan was not past due at December 31, 2023.

Prior to the adoption of ASU 2022-02, nonaccrual loans included some loans that were modified and identified as TDRs and were not performing. TDRs included in nonaccrual loans totaled \$80,000 at December 31, 2022.

Nonaccrual loans at December 31, 2022 did not include \$95,000 of TDRs where customers had established a sustained period of repayment performance, generally six months, the loans were current according to their modified terms and repayment of the remaining contractual payments was expected. These loans were included in total impaired loans. See Notes 1 and 4 in the accompanying Notes to Consolidated Financial Statements included in this Form 10-K for additional information regarding impaired loans and nonperforming loans.

We have incorporated the regulatory asset classifications as a part of our credit monitoring and internal loan risk rating system. In accordance with regulations, problem loans are classified as special mention, substandard, doubtful or loss, and the classifications are subject to review by the regulators. Assets designated as special mention are considered criticized assets. Assets designated as substandard, doubtful or loss are considered classified assets. See Note 4 in the accompanying Notes to Consolidated Financial Statements included in this Form 10-K for additional information regarding the regulatory asset classifications.

## Financial Condition (continued)

The level of total criticized and classified loans increased by \$5.6 million, or 73.6%, during the year ended December 31, 2023. Loans designated as special mention decreased \$2.7 million, or 40.3%, and totaled \$4.1 million at December 31, 2023, compared to \$6.8 million at December 31, 2022. Loans classified as substandard increased \$8.0 million and totaled \$8.6 million at December 31, 2023, compared to \$681,000 at December 31, 2022. See Note 4 in the accompanying Notes to Consolidated Financial Statements included in this Form 10-K for additional information regarding risk classification of loans.

In addition to credit monitoring through our internal loan risk rating system, we also monitor past due information for all loan segments. Loans that are not rated under our internal credit rating system include groups of homogenous loans, such as single-family residential real estate loans and consumer loans. The primary credit indicator for these groups of homogenous loans is past due information.

Total past due loans decreased \$136,000 and totaled \$2.0 million at December 31, 2023, compared to \$2.1 million at December 31, 2022. Past due loans totaled 0.1% of the loan portfolio at both December 31, 2023 and December 31, 2022. See Note 4 in the accompanying Notes to Consolidated Financial Statements for additional information regarding loan delinquencies.

All lending activity involves risk of loss. Certain types of loans, such as option adjustable-rate mortgage (“ARM”) products, junior lien mortgages, high loan-to-value ratio mortgages, interest only loans, subprime loans and loans with initial teaser rates, can have a greater risk of non-collection than other loans. CFBank has not engaged in subprime lending or used option ARM products.

Loans that contain interest-only payments may present a higher risk than those loans with an amortizing payment that includes periodic principal reductions. Interest only loans are primarily commercial lines of credit secured by business assets and inventory, and consumer home equity lines of credit secured by the borrower’s primary residence. Due to the fluctuations in business assets and inventory of our commercial borrowers, CFBank has increased risk due to a potential decline in collateral values without a corresponding decrease in the outstanding principal. Interest-only commercial lines of credit totaled \$147.5 million, or 33.5% of CFBank’s commercial portfolio at December 31, 2023, compared to \$117.9 million, or 27.6%, at December 31, 2022. Interest only home equity lines of credit totaled \$33.6 million, or 93.4% of the total home equity lines of credit, at December 31, 2023 compared to \$30.5 million, or 99.2%, at December 31, 2022.

We believe the ACL - Loans is adequate to absorb current expected credit losses in the loan portfolio as of December 31, 2023; however, future additions to the allowance may be necessary based on factors including, but not limited to, deterioration in client business performance, recessionary economic conditions, declines in borrowers’ cash flows and market conditions which result in lower real estate values. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the ACL - Loans. Such agencies may require additional provisions for loan losses based on judgments and estimates that differ from those used by management, or on information available at the time of their review. Management continues to diligently monitor credit quality in the existing portfolio and analyze potential loan opportunities carefully in order to manage credit risk. An increase in loan losses could occur if economic conditions and factors which affect credit quality, real estate values and general business conditions worsen or do not improve.

**Foreclosed assets.** There were no foreclosed assets at December 31, 2023 or December 31, 2022. The level of foreclosed assets and charges to foreclosed assets expense may change in the future in connection with workout efforts related to foreclosed assets, nonperforming loans and other loans with credit issues.

**Premises and equipment.** Premises and equipment, net, totaled \$3.8 million at December 31, 2023, and increased \$34,000, or 0.9%, from \$3.8 million at December 31, 2022. See Note 8 in the accompanying Notes to Consolidated Financial Statements for additional information.

**Deposits.** Deposits totaled \$1.7 billion at December 31, 2023, an increase of \$216.1 million, or 14.2%, from \$1.5 billion at December 31, 2022. The increase is primarily due to a \$105.3 million increase in certificate of deposit account balances, a \$102.5 million increase in money market account balances, and an \$11.4 million increase in checking account balances, partially offset by a \$3.1 million decrease in savings account balances. Noninterest-bearing deposit accounts totaled \$235.9 million at December 31, 2023 and decreased \$27.3 million from \$263.2 million at December 31, 2022.

CFBank is a participant in the Certificate of Deposit Account Registry Service® (CDARS) and Insured Cash Sweep (ICS) programs offered through IntraFi Network. IntraFi works with a network of banks to offer products that can provide FDIC insurance coverage in excess of \$250,000 through these innovative products. Brokered deposits, including CDARS and ICS deposits that qualify as brokered, totaled \$440.4 million at December 31, 2023, and increased \$148.6 million, or 50.9%, from \$291.8 million at December 31, 2022. Customer balances in the CDARS reciprocal and ICS reciprocal programs, which do not qualify as brokered, totaled \$237.8 million at December 31, 2023 and increased \$79.9 million, or 50.6%, from \$157.9 million at December 31, 2022.

## Financial Condition (continued)

**FHLB advances and other debt.** FHLB advances and other debt totaled \$110.0 million at December 31, 2023, an increase of \$534,000 when compared to \$109.5 million at December 31, 2022. The increase was primarily due to a \$4.0 million increase on the Company's line of credit with a third party financial institution, partially offset by a \$3.5 million decrease in FHLB advances.

The Holding Company has a \$35.0 million facility with a third-party bank. The credit facility is revolving until May 21, 2024, at which time any then-outstanding balance is converted to a 10-year term note on a graduated 10-year amortization. Borrowings on the credit facility bear interest at a fixed rate of 3.85% until May 21, 2026, and the interest rate then converts to a floating rate equal to PRIME with a floor of 3.25%. The purpose of the credit facility is to provide an additional source of liquidity for the Holding Company and to provide funds for the Holding Company to downstream as additional capital to CFBank to support growth. As of December 31, 2023, the Company had an outstanding balance, net of unamortized debt issuance costs, of \$33.5 million on the facility.

At December 31, 2023 and 2022, CFBank had availability in unused lines of credit at two commercial banks in the amounts of \$50.0 million and \$15.0 million, respectively. There were no outstanding borrowings on either line at December 31, 2023 or December 31, 2022.

**Subordinated debentures** Subordinated debentures totaled \$15.0 million at December 31, 2023 and \$14.9 million at December 31, 2022. In December 2018, the Holding Company entered into subordinated note purchase agreements with certain qualified institutional buyers and completed a private placement of \$10.0 million of fixed-to-floating rate subordinated notes, resulting in net proceeds of \$9,612,000 after deducting unamortized debt issuance costs of approximately \$388,000. In 2003, the Holding Company issued subordinated debentures in exchange for the proceeds of a \$5.0 million trust preferred securities offering issued by a trust formed by the Holding Company. The terms of the subordinated debentures allow for the Holding Company to defer interest payments for a period not to exceed five years. Interest payments on the subordinated debentures were current at December 31, 2023 and December 31, 2022. See Note 11 in the accompanying Notes to Consolidated Financial Statements for additional information.

**Stockholders' equity.** Stockholders' equity totaled \$155.4 million at December 31, 2023, an increase of \$16.1 million, or 11.6%, from \$139.2 million at December 31, 2022. The increase in total stockholders' equity was primarily attributed to net income, partially offset by \$1.5 million in dividend payments and a \$253,000 increase in other comprehensive loss. The other comprehensive loss was the result of the mark-to-market adjustment of our investment portfolio.

Management continues to proactively monitor capital levels and ratios in its on-going capital planning process. CFBank has leveraged its capital to support balance sheet growth and drive increased net interest income. Management remains focused on growing capital though improving results from operations; however, should the need arise, CFBank has additional sources of capital and alternatives it could utilize as further discussed in the "Liquidity and Capital Resources" section in this Form 10-K.

## Comparison of Results of Operations for 2023 and 2022

**General.** Net income for the year ended December 31, 2023 totaled \$16.9 million (or \$2.63 per diluted common share) and decreased \$1.3 million, or 6.8%, compared to net income of \$18.2 million (or \$2.78 per diluted common share) for the year ended December 31, 2022. The decrease in net income was primarily due to a decrease in net interest income and an increase in provision expense, which was partially offset by an increase in noninterest interest income and a decrease in noninterest expense.

**Net interest income.** Net interest income is a significant component of net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities. The tables below titled "Average Balances, Interest Rates and Yields" and "Rate/Volume Analysis of Net Interest Income" provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

Net interest income totaled \$47.6 million for the year ended December 31, 2023 and decreased \$1.2 million, or 2.4%, compared to net interest income of \$48.8 million for the year ended December 31, 2022. The decrease in net interest income was primarily due to a \$41.6 million, or 219.6%, increase in interest expense, partially offset by a \$40.5 million, or 59.8%, increase in interest income. The increase in interest expense was attributed to a 244bps increase in the average cost of funds on interest-bearing liabilities, coupled with a \$298.5 million, or 24.4%, increase in average interest-bearing liabilities. The increase in interest income was primarily attributed to a 152bps increase in the average yield on interest-earning assets, coupled with a \$286.5 million, or 18.5%, increase in average interest-earning assets outstanding. The net interest margin of 2.59% for the year ended December 31, 2023 decreased 56bps compared to the net interest margin of 3.15% for the year ended December 31, 2022.

Interest income totaled \$108.3 million for the twelve months ended December 31, 2023, and increased \$40.5 million, or 59.8%, compared to \$67.8 million for the twelve months ended December 31, 2022. The increase in interest income was primarily attributed to a 136bps increase in the average yield on loans and leases and loans held for sale, coupled with a \$249.5 million, or 18.0%, increase in average loans and leases and loans held for sale.

## Comparison of Results of Operations for 2023 and 2022 (continued)

Interest expense totaled \$60.6 million for the twelve months ended December 31, 2023, and increased \$41.6 million, or 219.6%, compared to \$19.0 million for the twelve months ended December 31, 2022. The increase in interest expense was primarily attributed to a 262bps increase in the average rate of interest-bearing deposits, coupled with a \$275.3 million, or 24.6%, increase in average interest-bearing deposits.

**Provision for credit losses.** The provision for credit losses expense for the year ended December 31, 2023 was \$2.3 million, and increased \$1.5 million, or 194.4%, compared to \$787,000 for the year ended December 31, 2022. Net charge-offs for the year ended December 31, 2023 totaled \$646,000, compared to net charge-offs of \$233,000 for the year ended December 31, 2022.

The following table presents information regarding net charge-offs (recoveries) for 2023 and 2022.

| (Dollars in thousands)                | 2023                         |      | 2022 |      |
|---------------------------------------|------------------------------|------|------|------|
|                                       | Net charge-offs (recoveries) |      |      |      |
| Commercial                            | \$                           | 690  | \$   | 263  |
| Single-family residential real estate |                              | (40) |      | (19) |
| Home equity lines of credit           |                              | (4)  |      | (11) |
| Total                                 | \$                           | 646  | \$   | 233  |

See the section above titled “Financial Condition – Allowance for Credit Losses on Loans” for additional information.

**Noninterest income.** Noninterest income for the year ended December 31, 2023 totaled \$4.0 million and increased \$821,000, or 25.6%, compared to \$3.2 million for the year ended December 31, 2022. The increase was primarily due to a \$525,000 increase in swap fee income and a \$431,000 increase in service charges on deposit accounts.

**Noninterest expense.** Noninterest expense for the year ended December 31, 2023 totaled \$28.4 million and decreased \$252,000, or 0.9%, compared to \$28.6 million for the year ended December 31, 2022. The decrease in noninterest expense during the year ended December 31, 2023 was primarily due to a \$635,000 decrease in data processing expense and a \$612,000 decrease in salaries and employee benefits expense, partially offset by a \$1.1 million increase in FDIC premiums. The decrease in data processing expense was due to the core processing system conversion that occurred in the third quarter of 2022, which included some one-time conversion costs. The decrease in salaries and employee benefits expense was primarily due to a decrease in the number of employees. The increase in FDIC expense was related to increased assets and deposit levels and assessment rates.

**Income taxes.** Income tax expense was \$4.0 million for the year ended December 31, 2023, a decrease of \$380,000, compared to \$4.4 million for the year ended December 31, 2022. The effective tax rate for the year ended December 31, 2023 was approximately 19.3%, as compared to approximately 19.6% for the year ended December 31, 2022.

Our deferred tax assets are composed of U.S. net operating losses (“NOLs”), and other temporary book to tax differences. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income and projected future reversals of deferred tax items. Based on these criteria, the Company determined as of December 31, 2023 that no valuation allowance was required against the net deferred tax asset.

The Company records income tax expense based on the federal statutory rate adjusted for the effect of other items such as low income housing credits, historic tax credits, bank owned life insurance and other miscellaneous items.

## Comparison of Results of Operations for 2022 and 2021

**General.** Net income for the year ended December 31, 2022 totaled \$18.2 million (or \$2.78 per diluted common share) and decreased \$289,000, or 1.6%, compared to net income of \$18.5 million (or \$2.77 per diluted common share) for the year ended December 31, 2021. The decrease in net income was primarily due to a decrease in net gain on sale of loans, a decrease in net gain on sale of deposits and an increase in provision expense, which was partially offset by an increase in net interest income and a decrease in noninterest expenses.

**Net interest income.** Net interest income is a significant component of net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities. The tables below titled “Average Balances, Interest Rates and Yields” and “Rate/Volume Analysis of Net Interest Income” provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

## Comparison of Results of Operations for 2022 and 2021 (continued)

Net interest income totaled \$48.8 million for the year ended December 31, 2022 and increased \$6.8 million, or 16.1%, compared to net interest income of \$42.0 million for the year ended December 31, 2021. The increase in net interest income was primarily due to a \$15.5 million, or 29.5%, increase in interest income, partially offset by a \$8.7 million, or 84.1%, increase in interest expense. The increase in interest income was primarily attributed to a \$167.9 million, or 12.2%, increase in average interest-earning assets outstanding, resulting primarily from an increase in net loans and loans held for sale, coupled with a 58bps increase in average yield on interest-earning assets. The increase in interest expense was attributed to a 60bps increase in the average cost of funds on interest-bearing liabilities, coupled with a \$135.9 million, or 12.5%, increase in average interest-bearing liabilities. The net interest margin of 3.15% for the year ended December 31, 2022 increased 11bps compared to the net interest margin of 3.04% for the year ended December 31, 2021.

Interest income totaled \$67.8 million for the twelve months ended December 31, 2022, and increased \$15.5 million, or 29.5%, compared to \$52.3 million for the twelve months ended December 31, 2021. The increase in interest income was primarily attributed to a \$347.1 million, or 33.6%, increase in average loans outstanding, coupled with a 18bps increase in the average yield on loans, partially offset by a \$238.7 million, or 97.4%, decrease in average loans held for sale.

Interest expense totaled \$19.0 million for the twelve months ended December 31, 2022, and increased \$8.7 million, or 84.1%, compared to \$10.3 million for the twelve months ended December 31, 2021. The increase in interest expense was primarily attributed to a 60bps increase in the average rate of interest-bearing deposits, coupled with a \$142.7 million, or 14.6%, increase in average interest-bearing deposits.

**Provision for loan and lease losses.** The provision for loan and lease losses expense for the year ended December 31, 2022 was \$787,000, compared to (\$1.6) million in provision for loan and lease losses expense for the year ended December 31, 2021. Net charge-offs for the year ended December 31, 2022 totaled \$233,000, compared to net recoveries of \$86,000 for the year ended December 31, 2021.

The following table presents information regarding net charge-offs (recoveries) for 2022 and 2021.

|                                       | 2022                         | 2021           |
|---------------------------------------|------------------------------|----------------|
| (Dollars in thousands)                | Net charge-offs (recoveries) |                |
| Commercial                            | \$ 263                       | \$ (56)        |
| Single-family residential real estate | (19)                         | (9)            |
| Home equity lines of credit           | (11)                         | (21)           |
| Total                                 | <u>\$ 233</u>                | <u>\$ (86)</u> |

See the section below titled “Financial Condition – Allowance for loan and lease losses” for additional information.

**Noninterest income.** Noninterest income for the year ended December 31, 2022 totaled \$3.2 million and decreased \$8.4 million, or 72.4%, compared to \$11.6 million for the year ended December 31, 2021. The decrease was primarily due to a \$5.3 million decrease in net gain on sale of residential loans, a \$1.9 million decrease in gain on sale of deposits and a \$1.1 million increase in the net gain on sales of commercial loans. The decrease in the net gain on sale of residential mortgage loans was the result of the Company’s decision in early 2021 to scale down and exit the direct-to-consumer mortgage business in favor of lending in our regional markets. The decrease in gain on sale of deposits was a result of the sale of CFBank’s two Columbiana County branches in July 2021.

**Noninterest expense.** Noninterest expense for the year ended December 31, 2022 totaled \$28.6 million and decreased \$3.9 million, or 11.8%, compared to \$32.5 million for the year ended December 31, 2021. The decrease in noninterest expense during the year ended December 31, 2022 was primarily due to a \$2.6 million decrease in advertising and promotion expense, a \$1.8 million decrease in salaries and employee benefits expense, and a \$1.6 million decrease in professional fees expense, partially offset by a \$721,000 increase in data processing expense and a \$570,000 increase on impairment of property and equipment. The decreases in advertising and marketing expense, salaries and employee benefits expense, and professional fee expense were primarily the result of the Company’s decision in early 2021 to scale down and exit the direct-to-consumer mortgage business in favor of lending in our regional markets as previously discussed. The increase in data processing expense was primarily related to the conversion of our core processing system during the third quarter of 2022. The impairment of property and equipment was related to the then-pending sale (as of December 31, 2022) of our Worthington headquarters building.

**Income taxes.** Income tax expense was \$4.4 million for the year ended December 31, 2022, an increase of \$63,000, compared to \$4.4 million for the year ended December 31, 2021. The effective tax rate for the year ended December 31, 2022 was approximately 19.6%, as compared to approximately 19.1% for the year ended December 31, 2021.

## Comparison of Results of Operations for 2022 and 2021 (continued)

Our deferred tax assets are composed of U.S. net operating losses (“NOLs”), and other temporary book to tax differences. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income and projected future reversals of deferred tax items. Based on these criteria, the Company determined as of December 31, 2022 that no valuation allowance was required against the net deferred tax asset.

The Company records income tax expense based on the federal statutory rate adjusted for the effect of other items such as low income housing credits, historic tax credits, bank owned life insurance and other miscellaneous items.

**Average Balances, Interest Rates and Yields.** The following table presents, for the periods indicated, the total dollar amount of fully taxable equivalent interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Average balances are computed using month-end balances.

|                                                                         | For the Years Ended December 31, |                       |                     |                             |                       |                     |                             |                       |                     |
|-------------------------------------------------------------------------|----------------------------------|-----------------------|---------------------|-----------------------------|-----------------------|---------------------|-----------------------------|-----------------------|---------------------|
|                                                                         | 2023                             |                       |                     | 2022                        |                       |                     | 2021                        |                       |                     |
|                                                                         | Average Outstanding Balance      | Interest Earned/ Paid | Average Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Average Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Average Yield/ Rate |
| (Dollars in thousands)                                                  |                                  |                       |                     |                             |                       |                     |                             |                       |                     |
| <b>Interest-earning assets:</b>                                         |                                  |                       |                     |                             |                       |                     |                             |                       |                     |
| Securities <sup>(1) (2)</sup>                                           | \$ 14,198                        | \$ 658                | 3.86%               | \$ 17,805                   | \$ 881                | 4.58%               | \$ 19,311                   | \$ 756                | 3.93%               |
| Loans and leases and loans held for sale <sup>(3)</sup>                 | 1,635,173                        | 97,383                | 5.96%               | 1,385,701                   | 63,717                | 4.60%               | 1,277,239                   | 51,256                | 4.01%               |
| Other earning assets                                                    | 178,275                          | 9,646                 | 5.41%               | 138,805                     | 2,818                 | 2.03%               | 79,017                      | 102                   | 0.13%               |
| FHLB and FRB stock                                                      | 8,566                            | 592                   | 6.91%               | 7,413                       | 348                   | 4.69%               | 6,220                       | 234                   | 3.76%               |
| Total interest-earning assets                                           | 1,836,212                        | 108,279               | 5.89%               | 1,549,724                   | 67,764                | 4.37%               | 1,381,787                   | 52,348                | 3.79%               |
| Noninterest-earning assets                                              | 92,957                           |                       |                     | 79,467                      |                       |                     | 79,393                      |                       |                     |
| Total assets                                                            | <u>\$ 1,929,169</u>              |                       |                     | <u>\$ 1,629,191</u>         |                       |                     | <u>\$ 1,461,180</u>         |                       |                     |
| <b>Interest-bearing liabilities:</b>                                    |                                  |                       |                     |                             |                       |                     |                             |                       |                     |
| Deposits                                                                | \$ 1,396,298                     | 56,363                | 4.04%               | \$ 1,121,003                | 15,952                | 1.42%               | \$ 978,258                  | 8,014                 | 0.82%               |
| FHLB advances and other borrowings                                      | 124,999                          | 4,276                 | 3.42%               | 101,757                     | 3,022                 | 2.97%               | 108,637                     | 2,295                 | 2.11%               |
| Total interest-bearing liabilities                                      | 1,521,297                        | 60,639                | 3.99%               | 1,222,760                   | 18,974                | 1.55%               | 1,086,895                   | 10,309                | 0.95%               |
| Noninterest-bearing liabilities                                         | 260,060                          |                       |                     | 273,789                     |                       |                     | 255,855                     |                       |                     |
| Total liabilities                                                       | 1,781,357                        |                       |                     | 1,496,549                   |                       |                     | 1,342,750                   |                       |                     |
| Equity                                                                  | 147,812                          |                       |                     | 132,642                     |                       |                     | 118,430                     |                       |                     |
| Total liabilities and equity                                            | <u>\$ 1,929,169</u>              |                       |                     | <u>\$ 1,629,191</u>         |                       |                     | <u>\$ 1,461,180</u>         |                       |                     |
| Net interest-earning assets                                             | <u>\$ 314,915</u>                |                       |                     | <u>\$ 326,964</u>           |                       |                     | <u>\$ 294,892</u>           |                       |                     |
| Net interest income/interest rate spread                                | <u>\$ 47,640</u>                 | <u>1.90%</u>          |                     | <u>\$ 48,790</u>            | <u>2.82%</u>          |                     | <u>\$ 42,039</u>            | <u>2.84%</u>          |                     |
| Net interest margin                                                     |                                  | <u>2.59%</u>          |                     |                             | <u>3.15%</u>          |                     |                             | <u>3.04%</u>          |                     |
| Average interest-earning assets to average interest-bearing liabilities | <u>120.70%</u>                   |                       |                     | <u>126.74%</u>              |                       |                     | <u>127.13%</u>              |                       |                     |

<sup>(1)</sup> Average balance is computed using the carrying value of securities. Average yield is computed using the historical amortized cost average balance for available for sale securities.

<sup>(2)</sup> Average yields and interest earned are stated on a fully taxable equivalent basis.

<sup>(3)</sup> Average balance is computed using the recorded investment in loans net of the ACL - Loans and includes nonperforming loans.

## Comparison of Results of Operations (continued)

**Rate/Volume Analysis of Net Interest Income.** The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase and decrease related to changes in balances and/or changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by the prior rate) and (ii) changes in rate (i.e., changes in rate multiplied by the prior volume). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

|                                    | Year Ended<br>December 31, 2023<br>Compared to Year Ended<br>December 31, 2022 |          |            | Year Ended<br>December 31, 2022<br>Compared to Year Ended<br>December 31, 2021 |          |          |
|------------------------------------|--------------------------------------------------------------------------------|----------|------------|--------------------------------------------------------------------------------|----------|----------|
|                                    | Increase (decrease) due to                                                     |          | Net        | Increase (decrease) due to                                                     |          | Net      |
|                                    | Rate                                                                           | Volume   |            | Rate                                                                           | Volume   |          |
|                                    | (Dollars in thousands)                                                         |          |            |                                                                                |          |          |
| Interest-earning assets:           |                                                                                |          |            |                                                                                |          |          |
| Securities <sup>(1)</sup>          | \$ (98)                                                                        | \$ (125) | \$ (223)   | \$ 165                                                                         | \$ (40)  | \$ 125   |
| Loans and leases                   | 20,898                                                                         | 12,768   | 33,666     | 2,716                                                                          | 9,745    | 12,461   |
| Other earning assets               | 5,832                                                                          | 996      | 6,828      | 2,584                                                                          | 132      | 2,716    |
| FHLB and FRB stock                 | 184                                                                            | 60       | 244        | 64                                                                             | 50       | 114      |
| Total interest-earning assets      | 26,816                                                                         | 13,699   | 40,515     | 5,529                                                                          | 9,887    | 15,416   |
| Interest-bearing liabilities:      |                                                                                |          |            |                                                                                |          |          |
| Deposits                           | 35,645                                                                         | 4,766    | 40,411     | 6,627                                                                          | 1,311    | 7,938    |
| FHLB advances and other borrowings | 501                                                                            | 753      | 1,254      | 880                                                                            | (153)    | 727      |
| Total interest-bearing liabilities | 36,146                                                                         | 5,519    | 41,665     | 7,507                                                                          | 1,158    | 8,665    |
| Net change in net interest income  | \$ (9,330)                                                                     | \$ 8,180 | \$ (1,150) | \$ (1,978)                                                                     | \$ 8,729 | \$ 6,751 |

<sup>(1)</sup> Securities amounts are presented on a fully taxable equivalent basis.

## Liquidity and Capital Resources

In general terms, liquidity is a measurement of an enterprise's ability to meet cash needs. The primary objective in liquidity management is to maintain the ability to meet loan commitments and to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. Principal sources of funds are deposits; amortization and prepayments of loans; maturities, sales and principal receipts of securities available for sale; borrowings; and operations. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

CFBank is required by regulation to maintain sufficient liquidity to ensure its safe and sound operation. Thus, adequate liquidity may vary depending on CFBank's overall asset/liability structure, market conditions, the activities of competitors, the requirements of our own deposit and loan customers and regulatory considerations. Management believes that each of the Holding Company's and CFBank's current liquidity is sufficient to meet its daily operating needs and fulfill its strategic planning.

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets, primarily cash, short-term investments and other assets that are widely traded in the secondary market, based on our ongoing assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objective of our asset/liability management program. In addition to liquid assets, we have other sources of liquidity available including, but not limited to, access to advances from the FHLB and borrowings from the FRB and our commercial bank lines of credit.

## Liquidity and Capital Resources (continued)

The following table summarizes CFBank's cash available from liquid assets and borrowing capacity at December 31, 2023 and 2022.

|                                                                         | December 31, 2023      | December 31, 2022 |
|-------------------------------------------------------------------------|------------------------|-------------------|
|                                                                         | (Dollars in thousands) |                   |
| Cash, unpledged securities and deposits in other financial institutions | \$ 262,004             | \$ 154,410        |
| Additional borrowing capacity at the FHLB                               | 183,654                | 187,854           |
| Additional borrowing capacity at the FRB                                | 136,240                | 105,119           |
| Unused commercial bank lines of credit                                  | 65,000                 | 65,000            |
| Total                                                                   | \$ 646,898             | \$ 512,383        |

Cash, unpledged securities and deposits in other financial institutions increased \$107.6 million, or 69.7%, to \$262.0 million at December 31, 2023, compared to \$154.4 million at December 31, 2022. The increase was primarily attributed to an increase in deposits, partially offset by an increase in net loan balances.

CFBank's additional borrowing capacity with the FHLB decreased \$4.2 million, or 2.2%, to \$183.7 million at December 31, 2023, compared to \$187.9 million at December 31, 2022.

CFBank's additional borrowing capacity at the FRB increased \$31.1 million, or 29.6%, to \$136.2 million at December 31, 2023 from \$105.1 million at December 31, 2022. CFBank is eligible to participate in the FRB's primary credit program, providing CFBank access to short-term funds at any time, for any reason, based on the collateral pledged.

CFBank's borrowing capacity with both the FHLB and FRB may be negatively impacted by changes such as, but not limited to, further tightening of credit policies by the FHLB or FRB, deterioration in the credit performance of CFBank's loan portfolio or CFBank's financial performance, or a decrease in the balance of pledged collateral.

CFBank had \$65.0 million of availability in unused lines of credit with two commercial banks at December 31, 2023 and December 31, 2022.

Deposits are obtained predominantly from the markets in which CFBank's offices are located. We rely primarily on a willingness to pay market-competitive interest rates to attract and retain retail deposits. Accordingly, rates offered by competing financial institutions may affect our ability to attract and retain deposits.

CFBank relies on competitive interest rates, customer service, and relationships with customers to retain deposits. In 2010, the FDIC, pursuant to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, permanently increased deposit insurance coverage from \$100,000 to \$250,000 per depositor.

The Holding Company has more limited sources of liquidity than CFBank. In general, in addition to its existing liquid assets, sources of liquidity include funds raised in the securities markets through debt or equity offerings, funds borrowed from third party banks or other lenders, dividends received from CFBank or the sale of assets.

Management believes that the Holding Company had adequate funds at December 31, 2023 to meet its current and anticipated operating needs at this time. The Holding Company's current cash requirements include operating expenses and interest on subordinated debentures and other debt. The Company may also pay dividends on its common stock, if and when declared by the Board of Directors.

Currently, annual debt service on the subordinated debentures underlying the Company's trust preferred securities is approximately \$430,000. Prior to July 1, 2023, the subordinated debentures had a variable rate of interest, which reset quarterly, equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85%. Effective July 1, 2023, the rate of interest on the subordinated debentures resets quarterly to the three-month Secured Overnight Financing Rate (SOFR) plus 3.112%, which was 8.44% at December 31, 2023.

The Holding Company's subordinated notes had a fixed rate of 7.00% until December 2023, at which time the interest rate began to reset quarterly to a rate equal to the then current three-month SOFR plus 4.402%.

## **Liquidity and Capital Resources (continued)**

The Holding Company has a \$35.0 million credit facility. The credit facility is revolving until May 21, 2024 at which time any then-outstanding balance will be converted to a 10-year term note on a graduated 10-year amortization. Borrowings on the credit facility bear interest at a fixed rate of 3.85% until May 21, 2026, and the interest rate then converts to a floating rate equal to PRIME with a floor of 3.75%. The purpose of the credit facility is to provide an additional source of liquidity for the Holding Company and to provide funds for the Holding Company to downstream as additional capital to CFBank to support growth. At December 31, 2023, the Company had an outstanding balance, net of unamortized debt issuance costs, of \$33.5 million on the facility.

The ability of the Holding Company to pay dividends on its common stock is dependent upon the amount of cash and liquidity available at the Holding Company level, as well as the receipt of dividends and other distributions from CFBank to the extent necessary to fund such dividends.

The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. Banking regulations limit the amount of dividends that can be paid to the Holding Company by CFBank without prior regulatory approval. Generally, financial institutions may pay dividends without prior regulatory approval as long as the dividend does not exceed the total of the current calendar year-to-date earnings plus any earnings from the previous two years not already paid out in dividends, and as long as the financial institution remains well capitalized after the dividend payment.

The Holding Company also is subject to various legal and regulatory policies and requirements impacting the Holding Company's ability to pay dividends on its stock. In addition, the Holding Company's ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities. Finally, under the terms of the Company's fixed-to-floating rate subordinated debt, the Holding Company's ability to pay dividends on its stock is conditioned upon the Holding Company continuing to make required principal and interest payments, and not incurring an event of default, with respect to the subordinated debt.

Federal income tax laws provided deductions, totaling \$2.3 million, for thrift bad debt reserves established before 1988. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would have totaled \$473,000 at year-end 2023. However, if CFBank were wholly or partially liquidated or otherwise ceases to be a bank, or if tax laws were to change, this amount would have to be recaptured and a tax liability recorded. Additionally, any distributions in excess of CFBank's current or accumulated earnings and profits would reduce amounts allocated to its bad debt reserve and create a tax liability for CFBank.

## **Impact of Inflation**

The financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles, which presently require us to measure financial position and results of operations primarily in terms of historical dollars. Changes in the relative value of money due to inflation are generally not considered. In our opinion, changes in interest rates affect our financial condition to a far greater degree than changes in the inflation rate. While interest rates are generally influenced by changes in the inflation rate, they do not move concurrently. Rather, interest rate volatility is based on changes in the expected rate of inflation, as well as changes in monetary and fiscal policy. A financial institution's ability to be relatively unaffected by changes in interest rates is a good indicator of its ability to perform in a volatile economic environment. In an effort to protect performance from the effects of interest rate volatility, we review interest rate risk frequently and take steps to minimize detrimental effects on profitability.

## **Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the risk of loss from adverse changes in market prices and interest rates. We have not engaged in and, accordingly, have no risk related to trading accounts, commodities or foreign exchange. Our hedging policy allows hedging activities, such as interest-rate swaps, up to a notional amount of 10% of total assets and a value at risk of 10% of core capital. Disclosures about our hedging activities are set forth in Note 17 to our Consolidated Financial Statements. The Company's market risk arises primarily from interest rate risk inherent in our lending, investing, deposit gathering and borrowing activities. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated and the resulting net positions are identified. Disclosures about fair value are set forth in Note 6 to our Consolidated Financial Statements.

Management actively monitors and manages interest rate risk. The primary objective in managing interest rate risk is to limit, within established guidelines, the adverse impact of changes in interest rates on our net interest income and capital. We measure the effect of interest rate changes on CFBank's economic value of equity (EVE), which is the difference between the estimated market value of CFBank's assets and liabilities under different interest rate scenarios. The change in the EVE ratio is a long-term measure of what might happen to the market value of financial assets and liabilities over time if interest rates changed instantaneously and CFBank did not change existing strategies.

## Quantitative and Qualitative Disclosures about Market Risk (continued)

At December 31, 2023, CFBank's EVE ratios, using interest rate shocks ranging from a 400 bps rise in rates to a 400 bps decline in rates, are shown in the following table. All values are within the acceptable range established by CFBank's Board of Directors.

| Economic Value of Equity<br>as a Percent of Assets<br>(CFBank only) |                         |
|---------------------------------------------------------------------|-------------------------|
| Basis Point<br>Change in Rates                                      | Economic<br>Value Ratio |
| +400                                                                | 7.9%                    |
| +300                                                                | 8.5%                    |
| +200                                                                | 9.0%                    |
| +100                                                                | 9.6%                    |
| 0                                                                   | 10.2%                   |
| -100                                                                | 10.8%                   |
| -200                                                                | 11.4%                   |
| -300                                                                | 12.1%                   |
| -400                                                                | 12.3%                   |

In evaluating CFBank's exposure to interest rate risk, certain limitations inherent in the method of analysis presented in the foregoing table must be considered. For example, the table indicates results based on changes in the level of interest rates, but not changes in the shape of the yield curve. CFBank also has exposure to changes in the shape of the yield curve. Although certain assets and liabilities may have similar maturities or periods to which they reprice, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their debt may decrease when interest rates rise. As a result, the actual effect of changing interest rates may differ materially from that presented in the foregoing table.

Changes in levels of market interest rates could materially and adversely affect our net interest income, loan volume, asset quality, value of loans held for sale and cash flows, as well as the market value of our securities portfolio and overall profitability.

Residential mortgage loan origination volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations, while falling interest rates are usually associated with higher loan originations. Our ability to generate gains on sales of mortgage loans is significantly dependent on the level of originations. Changes in interest rates, prepayment speeds and other factors may also cause the value of our loans held for sale to change.

We originate commercial, commercial real estate, multi-family residential and single family residential real estate mortgage loans for our portfolio, which, in many cases, have adjustable interest rates. Many of these loans have interest-rate floors, which protect income to CFBank should rates fall. While adjustable-rate loans better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, the increased payments required of adjustable-rate loan borrowers upon an interest rate adjustment in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a rising interest rate environment.

Cash flows are affected by changes in market interest rates. Generally, in rising interest rate environments, loan prepayment rates are likely to decline, and in falling interest rate environments, loan prepayment rates are likely to increase.

## **Market and Dividend Information**

The (voting) common stock of CF Bankshares Inc. trades on the Nasdaq® Capital Market under the symbol “CFBK.” As of December 31, 2023, there were 5,284,860 shares of (voting) common stock outstanding and held by approximately 327 registered shareholders of record. As of December 31, 2023, the Company also had an aggregate of 1,260,700 shares of non-voting common stock outstanding which were held by two shareholders of record.

There was \$0.23 per share in dividends declared or paid on our common stock during 2023. The Company presently anticipates continuing to pay dividends in the future at similar levels, subject to compliance with applicable legal and regulatory requirements. The Holding Company is subject to various legal and regulatory policies and guidelines impacting the Holding Company’s ability to pay dividends on its stock. In addition, banking regulations limit the amount of dividends that can be paid to the Holding Company by CFBank without prior regulatory approval and, thus, can limit the availability of funds available to the Holding Company for the payment of dividends on its stock. The Holding Company’s ability to pay dividends on its common stock is also conditioned upon the Holding Company continuing to make certain payments on, and no event of default occurring under, the Company’s fixed-to-floating rate subordinated debt and the subordinated debentures underlying the Holding Company’s trust preferred securities. Additional information is contained in the sections titled “Financial Condition - Stockholders’ equity” and “Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K and in Note 16 in the accompanying Notes to Consolidated Financial Statements.

## CF BANKSHARES INC.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of CF Bankshares Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria for effective internal control over financial reporting as described in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2023.

This annual report does not contain an audit report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to audit by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.



Timothy T. O'Dell

President and Chief Executive Officer



Kevin J. Beerman

Executive Vice President and Chief Financial Officer

March 28, 2024



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forvis.com

## Report of Independent Registered Public Accounting Firm

Shareholders, Board of Directors, and Audit Committee  
CF Bankshares Inc.  
Columbus, Ohio

### ***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated balance sheets of CF Bankshares Inc. (the “Company”) as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company changed its method of accounting for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses*.

### ***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### ***Critical Audit Matter***

The critical audit matter communicated below is a matter arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

As described in Notes 1 and 4 to the consolidated financial statements and referred to in the change in accounting principle explanatory paragraph above, the Company adopted ASC 326 as of January 1, 2023, which among other things, required the Company to recognize expected credit losses over the contractual lives of financial assets carried at amortized costs, including loans receivables, utilizing the Current Expected Credit Losses ("CECL") methodology. As of December 31, 2023, the allowance for credit losses (ACL) balance was \$18.2 million. Estimates of expected credit losses are based on relevant information about current conditions, past events, and reasonable and supportable forward-looking forecasts regarding collectability of the reported amounts. The Company utilized an average charge-off method derived from historical data to construct a loss rate for each identified loan segment. Due to the Company's loss history not being sufficient and relevant enough to predict future losses, the Company also utilized peer data from a peer group. The loss rates are then adjusted, for reasonable and supportable forecasts of relevant economic indicators as well as other environmental factors based on the risks present for each portfolio segment. The environmental factors ("qualitative adjustments") include consideration of economic conditions and portfolio trends.

### ***How We Addressed the Matter in Our Audit***

The primary procedures we performed to address this critical audit matter included:

- Obtained an understanding of the Company's process for establishing the ACL, including the selection of models and the qualitative factor adjustments of the ACL.
- Tested clerical and computational accuracy of the formulas within the calculation.
- Tested completeness and accuracy of the information and reports utilized in the ACL.
- Performed reviews of individual credit files to evaluate the reasonableness of loan credit risk ratings.
- Evaluated the qualitative adjustments to the ACL including assessing the basis for adjustments and the reasonableness of the significant assumptions.
- Evaluated the reserve generated for unfunded commitments and tested the completeness and accuracy of the information utilized.
- Evaluated the forecast adjustment, including assessing that it is reasonable and supportable.
- Tested the reasonableness of specific reserves on individually reviewed loans.
- Evaluated credit quality trends in delinquencies, non-accruals, charge-offs, and loan risk ratings.

## **FORVIS, LLP**

**FORVIS, LLP**

**We have served as the Company's auditor since 2014.**

**Indianapolis, Indiana**

**March 28, 2024**

CF BANKSHARES INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2023 and 2022  
(Dollars in thousands, except per share data)

|                                                                                                                                                    | December 31,<br>2023 | December 31,<br>2022 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                      |                      |                      |
| Cash and cash equivalents                                                                                                                          | \$ 261,595           | \$ 151,787           |
| Interest-bearing deposits in other financial institutions                                                                                          | 100                  | 100                  |
| Securities available for sale                                                                                                                      | 8,092                | 10,442               |
| Equity securities                                                                                                                                  | 5,000                | 5,000                |
| Loans held for sale, at fair value                                                                                                                 | 1,849                | 580                  |
| Loans and leases, net of allowance of \$16,865 and \$16,062, respectively                                                                          | 1,694,133            | 1,572,255            |
| FHLB and FRB stock                                                                                                                                 | 8,482                | 7,942                |
| Premises and equipment, net                                                                                                                        | 3,812                | 3,778                |
| Other assets held for sale                                                                                                                         | -                    | 1,930                |
| Operating lease right-of-use assets                                                                                                                | 5,221                | 1,357                |
| Bank owned life insurance                                                                                                                          | 26,266               | 25,641               |
| Accrued interest receivable and other assets                                                                                                       | 44,065               | 39,362               |
| Total assets                                                                                                                                       | <u>\$ 2,058,615</u>  | <u>\$ 1,820,174</u>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                        |                      |                      |
| Deposits                                                                                                                                           |                      |                      |
| Noninterest bearing                                                                                                                                | \$ 235,916           | \$ 263,241           |
| Interest bearing                                                                                                                                   | 1,508,141            | 1,264,681            |
| Total deposits                                                                                                                                     | 1,744,057            | 1,527,922            |
| FHLB advances and other debt                                                                                                                       | 109,995              | 109,461              |
| Advances by borrowers for taxes and insurance                                                                                                      | 2,179                | 3,513                |
| Operating lease liabilities                                                                                                                        | 5,302                | 1,438                |
| Accrued interest payable and other liabilities                                                                                                     | 26,747               | 23,670               |
| Subordinated debentures                                                                                                                            | 14,961               | 14,922               |
| Total liabilities                                                                                                                                  | 1,903,241            | 1,680,926            |
| Commitments and contingent liabilities                                                                                                             |                      |                      |
|                                                                                                                                                    | -                    | -                    |
| Stockholders' equity                                                                                                                               |                      |                      |
| Common stock, \$0.01 par value;                                                                                                                    |                      |                      |
| shares authorized: 9,090,909, including 1,260,700 shares of non-voting common stock                                                                |                      |                      |
| Voting common stock, \$0.01 par value; shares issued: 5,665,958 at December 31, 2023 and 5,601,289 at December 31, 2022                            | 57                   | 56                   |
| Non-voting common stock, \$0.01 par value;                                                                                                         |                      |                      |
| shares issued: 1,260,700 at December 31, 2023 and December 31, 2022                                                                                | 13                   | 13                   |
| Additional paid-in capital                                                                                                                         | 91,068               | 89,813               |
| Retained earnings                                                                                                                                  | 76,517               | 61,095               |
| Accumulated other comprehensive loss                                                                                                               | (2,290)              | (2,037)              |
| Treasury stock, at cost; 381,098 shares of voting common stock at December 31, 2023 and 365,165 shares of voting common stock at December 31, 2022 | (9,991)              | (9,692)              |
| Total stockholders' equity                                                                                                                         | 155,374              | 139,248              |
| Total liabilities and stockholders' equity                                                                                                         | <u>\$ 2,058,615</u>  | <u>\$ 1,820,174</u>  |

See accompanying notes to consolidated financial statements.

CF BANKSHARES INC.  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2023, 2022 and 2021  
(Dollars in thousands, except per share data)

|                                                       | 2023      | 2022      | 2021      |
|-------------------------------------------------------|-----------|-----------|-----------|
| Interest and dividend income                          |           |           |           |
| Loans and leases, including fees                      | \$ 97,383 | \$ 63,717 | \$ 51,256 |
| Securities                                            | 658       | 881       | 756       |
| FHLB and FRB stock dividends                          | 592       | 348       | 234       |
| Federal funds sold and other                          | 9,646     | 2,818     | 102       |
|                                                       | 108,279   | 67,764    | 52,348    |
| Interest expense                                      |           |           |           |
| Deposits                                              | 56,363    | 15,952    | 8,014     |
| FHLB advances and other debt                          | 3,107     | 2,040     | 1,398     |
| Subordinated debentures                               | 1,169     | 982       | 897       |
|                                                       | 60,639    | 18,974    | 10,309    |
| Net interest income                                   | 47,640    | 48,790    | 42,039    |
| Provision for credit losses                           |           |           |           |
| Provision for credit losses-loans                     | 1,858     | 787       | (1,600)   |
| Provision for credit losses-unfunded commitments      | 459       | -         | -         |
|                                                       | 2,317     | 787       | (1,600)   |
| Net interest income after provision for credit losses | 45,323    | 48,003    | 43,639    |
| Noninterest income                                    |           |           |           |
| Service charges on deposit accounts                   | 1,566     | 1,135     | 845       |
| Net gains on sales of residential mortgage loans      | 119       | 656       | 5,916     |
| Net gains on sales of SBA loans                       | 66        | 353       | 1,443     |
| Gain (loss) on redemption of life insurance policies  | -         | (173)     | 383       |
| Earnings on bank owned life insurance                 | 625       | 598       | 532       |
| Gain on sale of deposits                              | -         | -         | 1,893     |
| Swap fee income                                       | 715       | 190       | 194       |
| Other                                                 | 940       | 451       | 434       |
|                                                       | 4,031     | 3,210     | 11,640    |
| Noninterest expense                                   |           |           |           |
| Salaries and employee benefits                        | 14,513    | 15,125    | 16,948    |
| Occupancy and equipment                               | 1,694     | 1,253     | 1,120     |
| Data processing                                       | 2,172     | 2,807     | 2,086     |
| Franchise and other taxes                             | 1,263     | 1,151     | 975       |
| Professional fees                                     | 2,470     | 2,758     | 4,348     |
| Director fees                                         | 658       | 632       | 622       |
| Postage, printing and supplies                        | 149       | 183       | 146       |
| Advertising and marketing                             | 336       | 431       | 3,061     |
| Telephone                                             | 257       | 249       | 263       |
| Loan expenses                                         | 619       | 694       | 352       |
| Depreciation                                          | 567       | 496       | 435       |
| FDIC premiums                                         | 2,215     | 1,130     | 1,238     |
| Regulatory assessment                                 | 242       | 272       | 261       |
| Other insurance                                       | 209       | 177       | 158       |
| Impairment of property and equipment                  | 60        | 570       | 17        |
| Other                                                 | 945       | 693       | 431       |
|                                                       | 28,369    | 28,621    | 32,461    |
| Income before incomes taxes                           | 20,985    | 22,592    | 22,818    |
| Income tax expense                                    | 4,048     | 4,428     | 4,365     |
| Net income                                            | \$ 16,937 | \$ 18,164 | \$ 18,453 |
| Earnings per common share:                            |           |           |           |
| Basic                                                 | \$ 2.64   | \$ 2.84   | \$ 2.84   |
| Diluted                                               | \$ 2.63   | \$ 2.78   | \$ 2.77   |

See accompanying notes to consolidated financial statements.

CF BANKSHARES INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2023, 2022 and 2021  
(Dollars in thousands, except per share data)

|                                                                                                                                                            | 2023             | 2022             | 2021             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| Net income                                                                                                                                                 | \$ 16,937        | \$ 18,164        | \$ 18,453        |
| Other comprehensive income:                                                                                                                                |                  |                  |                  |
| Unrealized holding gains (losses) arising during the period related to investment securities available for sale, net of tax of (\$67), (\$496) and (\$71): | (253)            | (1,867)          | (266)            |
| Other comprehensive income (loss), net of tax                                                                                                              | (253)            | (1,867)          | (266)            |
| Comprehensive income                                                                                                                                       | <u>\$ 16,684</u> | <u>\$ 16,297</u> | <u>\$ 18,187</u> |

See accompanying notes to consolidated financial statements.

CF BANKSHARES INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years ended December 31, 2023, 2022 and 2021  
(Dollars in thousands, except per share data)

|                                                                                                                               | Voting<br>Common<br>Stock | Non-<br>voting<br>Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------------|----------------------------------|----------------------|--------------------------------------------------------|-------------------|----------------------------------|
| Balance at January 1, 2021                                                                                                    | \$ 54                     | 13                                | 87,637                           | 26,479               | 96                                                     | (4,069)           | 110,210                          |
| Net income                                                                                                                    | -                         | -                                 | -                                | 18,453               | -                                                      | -                 | 18,453                           |
| Other comprehensive income                                                                                                    | -                         | -                                 | -                                | -                    | (266)                                                  | -                 | (266)                            |
| Issuance of 19,660 stock based incentive plan shares,<br>net of forfeitures                                                   | 1                         | -                                 | (1)                              | -                    | -                                                      | -                 | -                                |
| Restricted stock expense, net of forfeitures                                                                                  | -                         | -                                 | 707                              | -                    | -                                                      | -                 | 707                              |
| Stock options exercised                                                                                                       | -                         | -                                 | 185                              | -                    | -                                                      | -                 | 185                              |
| Acquisition of 2,261 treasury shares surrendered upon<br>vesting of restricted stock for payment of taxes                     | -                         | -                                 | -                                | -                    | -                                                      | (43)              | (43)                             |
| Acquisition of 4,522 treasury shares surrendered upon<br>exercise of stock options for payment of taxes and<br>exercise price | -                         | -                                 | -                                | -                    | -                                                      | (96)              | (96)                             |
| Purchase of 143,551 treasury shares                                                                                           | -                         | -                                 | -                                | -                    | -                                                      | (2,972)           | (2,972)                          |
| Dividends declared ( \$0.13 per share)                                                                                        | -                         | -                                 | -                                | (848)                | -                                                      | -                 | (848)                            |
| Balance at December 31, 2021                                                                                                  | 55                        | 13                                | 88,528                           | 44,084               | (170)                                                  | (7,180)           | 125,330                          |
| Net income                                                                                                                    | -                         | -                                 | -                                | 18,164               | -                                                      | -                 | 18,164                           |
| Other comprehensive income                                                                                                    | -                         | -                                 | -                                | -                    | (1,867)                                                | -                 | (1,867)                          |
| Issuance of 69,648 stock based incentive plan shares,<br>net of forfeitures                                                   | 1                         | -                                 | (1)                              | -                    | -                                                      | -                 | -                                |
| Restricted stock expense, net of forfeitures                                                                                  | -                         | -                                 | 899                              | -                    | -                                                      | -                 | 899                              |
| Stock options exercised                                                                                                       | -                         | -                                 | 387                              | -                    | -                                                      | -                 | 387                              |
| Acquisition of 3,424 treasury shares surrendered upon<br>vesting of restricted stock for payment of taxes                     | -                         | -                                 | -                                | -                    | -                                                      | (73)              | (73)                             |
| Acquisition of 4,366 treasury shares surrendered upon<br>exercise of stock options for payment of exercise price              | -                         | -                                 | -                                | -                    | -                                                      | (100)             | (100)                            |
| Purchase of 110,998 treasury shares                                                                                           | -                         | -                                 | -                                | -                    | -                                                      | (2,339)           | (2,339)                          |
| Dividends declared ( \$0.18 per share)                                                                                        | -                         | -                                 | -                                | (1,153)              | -                                                      | -                 | (1,153)                          |
| Balance at December 31, 2022                                                                                                  | 56                        | 13                                | 89,813                           | 61,095               | (2,037)                                                | (9,692)           | 139,248                          |
| Cumulative effect of ASC 326 adoption                                                                                         | -                         | -                                 | -                                | (39)                 | -                                                      | -                 | (39)                             |
| Balance at January 1, 2023                                                                                                    | 56                        | 13                                | 89,813                           | 61,056               | (2,037)                                                | (9,692)           | 139,209                          |
| Net income                                                                                                                    | -                         | -                                 | -                                | 16,937               | -                                                      | -                 | 16,937                           |
| Other comprehensive loss                                                                                                      | -                         | -                                 | -                                | -                    | (253)                                                  | -                 | (253)                            |
| Issuance of 59,784 stock based incentive plan shares,<br>net of forfeitures                                                   | 1                         | -                                 | (1)                              | -                    | -                                                      | -                 | -                                |
| Restricted stock expense, net of forfeitures                                                                                  | -                         | -                                 | 1,172                            | -                    | -                                                      | -                 | 1,172                            |
| Stock options exercised                                                                                                       | -                         | -                                 | 84                               | -                    | -                                                      | -                 | 84                               |
| Acquisition of 4,875 treasury shares surrendered upon<br>vesting of restricted stock for payment of taxes                     | -                         | -                                 | -                                | -                    | -                                                      | (95)              | (95)                             |
| Acquisition of 1,555 treasury shares surrendered upon<br>exercise of stock options for payment of exercise price              | -                         | -                                 | -                                | -                    | -                                                      | (27)              | (27)                             |
| Purchase of 9,503 treasury shares                                                                                             | -                         | -                                 | -                                | -                    | -                                                      | (177)             | (177)                            |
| Dividends declared ( \$0.23 per share)                                                                                        | -                         | -                                 | -                                | (1,476)              | -                                                      | -                 | (1,476)                          |
| Balance at December 31, 2023                                                                                                  | \$ 57                     | \$ 13                             | \$ 91,068                        | \$ 76,517            | \$ (2,290)                                             | \$ (9,991)        | \$ 155,374                       |

See accompanying notes to consolidated financial statements.

CF BANKSHARES INC.  
CONSOLIDATED STATEMENTS OF CHANGES OF CASH FLOWS  
Years ended December 31, 2023, 2022 and 2021  
(Dollars in thousands, except per share data)

|                                                                                                                                              | 2023       | 2022       | 2021        |
|----------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|-------------|
| Net income                                                                                                                                   | \$ 16,937  | \$ 18,164  | \$ 18,453   |
| Adjustments to reconcile net income to net cash from operating activities:                                                                   |            |            |             |
| Provision for loan and lease losses                                                                                                          | 2,317      | 787        | (1,600)     |
| Depreciation                                                                                                                                 | 567        | 496        | 435         |
| Amortization, net                                                                                                                            | (1,024)    | (881)      | (2,505)     |
| Deferred income tax expense                                                                                                                  | 456        | 215        | 773         |
| Originations of loans held for sale                                                                                                          | (10,800)   | (97,265)   | (2,358,511) |
| Proceeds from sale of loans held for sale                                                                                                    | 9,650      | 123,655    | 2,602,993   |
| Net gains on sales of residential mortgage loans                                                                                             | (119)      | (656)      | (5,916)     |
| Net gains on sales of SBA loans                                                                                                              | (66)       | (353)      | (1,443)     |
| Gain on sale of deposits                                                                                                                     | -          | -          | (1,893)     |
| Write-down of premises and equipment                                                                                                         | 60         | 570        | 17          |
| Loss on sale of other assets held for sale                                                                                                   | 13         | -          | -           |
| Earnings on bank owned life insurance                                                                                                        | (625)      | (598)      | (532)       |
| Loss (gain) on redemption of life insurance policies                                                                                         | -          | 173        | (383)       |
| Stock-based compensation expense                                                                                                             | 1,172      | 899        | 707         |
| Net change in:                                                                                                                               |            |            |             |
| Accrued interest receivable and other assets                                                                                                 | (2,676)    | (6,475)    | 17,880      |
| Operating lease right-of-use asset                                                                                                           | 687        | 568        | 461         |
| Operating lease right-of-use liability                                                                                                       | (686)      | (594)      | (498)       |
| Accrued interest payable and other liabilities                                                                                               | 2,188      | 1,059      | (15,135)    |
| Net cash from operating activities                                                                                                           | 18,051     | 39,764     | 253,303     |
| Cash flows from investing activities:                                                                                                        |            |            |             |
| Available-for-sale securities:                                                                                                               |            |            |             |
| Maturities, prepayments and calls                                                                                                            | 2,013      | 3,517      | 5,030       |
| Purchases                                                                                                                                    | -          | -          | (13,070)    |
| Purchase of bank owned life insurance                                                                                                        | -          | -          | (8,000)     |
| Loan and lease originations and payments, net                                                                                                | (124,851)  | (364,759)  | (311,232)   |
| Purchase of loans and leases                                                                                                                 | -          | (3,698)    | (18,677)    |
| Proceeds from the sale of loans                                                                                                              | 1,835      | 12,569     | 33,361      |
| Additions to premises and equipment                                                                                                          | (661)      | (905)      | (2,962)     |
| Purchase of FRB and FHLB stock                                                                                                               | (540)      | (627)      | (1,468)     |
| Purchase of other investments                                                                                                                | (1,200)    | -          | (1,500)     |
| Purchase of investment- joint ventures                                                                                                       | (1,000)    | -          | -           |
| Return of investment- joint ventures                                                                                                         | 659        | 582        | 756         |
| Proceeds from the sale of assets held for sale                                                                                               | 1,892      | -          | -           |
| Proceeds from the redemption of life insurance policies                                                                                      | -          | -          | 661         |
| Proceeds from the sale of premises and equipment                                                                                             | -          | -          | 371         |
| Net cash used by investing activities                                                                                                        | (121,853)  | (353,321)  | (316,730)   |
| Cash flows from financing activities:                                                                                                        |            |            |             |
| Net change in deposits                                                                                                                       | 216,135    | 281,570    | 237,593     |
| Cash paid for assumption of deposits in branch sale                                                                                          | -          | -          | (102,418)   |
| Proceeds from FHLB advances and other debt                                                                                                   | 37,075     | 40,150     | 174,277     |
| Repayments on FHLB advances and other debt                                                                                                   | (36,575)   | (20,450)   | (228,964)   |
| Net change in warehouse line of credit                                                                                                       | -          | -          | (70,013)    |
| Net change in advances by borrowers for taxes and insurance                                                                                  | (1,334)    | 761        | 1,723       |
| Cash dividends paid on common stock                                                                                                          | (1,476)    | (1,153)    | (848)       |
| Proceeds from exercise of stock options                                                                                                      | 84         | 387        | 185         |
| Acquisition of treasury shares surrendered upon vesting of restricted stock and exercised options for payment of taxes and exercise proceeds | (122)      | (173)      | (139)       |
| Purchase of treasury shares                                                                                                                  | (177)      | (2,339)    | (2,972)     |
| Net cash from financing activities                                                                                                           | 213,610    | 298,753    | 8,424       |
| Net change in cash and cash equivalents                                                                                                      | 109,808    | (14,804)   | (55,003)    |
| Beginning cash and cash equivalents                                                                                                          | 151,787    | 166,591    | 221,594     |
| Ending cash and cash equivalents                                                                                                             | \$ 261,595 | \$ 151,787 | \$ 166,591  |

See accompanying notes to consolidated financial statements.

CF BANKSHARES INC.  
CONSOLIDATED STATEMENTS OF CHANGES OF CASH FLOWS  
Years ended December 31, 2023, 2022 and 2021  
(Dollars in thousands, except per share data)

|                                                                             | 2023      | 2022      | 2021      |
|-----------------------------------------------------------------------------|-----------|-----------|-----------|
| Supplemental cash flow information:                                         |           |           |           |
| Interest paid                                                               | \$ 58,799 | \$ 18,362 | \$ 10,579 |
| Income tax paid                                                             | 3,975     | 2,450     | 3,850     |
| Supplemental noncash disclosures:                                           |           |           |           |
| Loans transferred from held for sale to portfolio                           | \$ -      | \$ 1,674  | \$ 16,611 |
| Transfer from premises and equipment to assets held for sale                | -         | 1,930     | -         |
| Investment payable on limited liability corporation and limited partnership | 889       | 8,097     | 7,764     |
| Initial recognition of operating right-of-use lease asset                   | 4,550     | -         | 999       |
| Initial recognition of operating right-of-use lease liability               | 4,550     | -         | 999       |
| Redemption proceeds receivable on life insurance policy                     | -         | 528       | -         |

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations and Principles of Consolidation:

The consolidated financial statements include CF Bankshares Inc. (the “Holding Company”) and its wholly-owned subsidiary, CFBank, National Association (“CFBank”). On December 1, 2016, CFBank converted from a federal savings institution to a national bank. Prior to December 1, 2016, the Holding Company was a registered savings and loan holding company. Effective as of December 1, 2016 and in conjunction with the conversion of CFBank to a national bank, the Holding Company became a registered bank holding company and elected financial holding company status with the Board of Governors of the Federal Reserve System (the “FRB”). Effective as of July 27, 2020, the Company changed its name from Central Federal Corporation to CF Bankshares Inc. The Holding Company and CFBank are sometimes collectively referred to herein as the “Company”. Intercompany transactions and balances are eliminated in consolidation.

CFBank provides financial services through its eight full-service banking offices in the metro markets of Columbus, Cincinnati, Cleveland and Akron, Ohio and Indianapolis, Indiana. Its primary deposit products are commercial and retail checking, savings, money market and term certificate accounts. Its primary lending products are commercial and commercial real estate, residential mortgages and installment loans. There are no significant concentrations of loans to any one industry or customer segment. However, our customers’ ability to repay their loans is dependent on general economic conditions and the real estate values in their geographic areas.

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for credit losses on financial assets, deferred tax assets and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions and borrowings with original maturities under 90 days.

Cash in Excess of FDIC Limits: At December 31, 2023, the Company’s cash accounts exceeded federally insured limits by approximately \$229.1 million. Approximately \$225.1 million of that amount was held by either the Federal Reserve Bank or the Federal Home Loan Bank of Cincinnati, which is not federally insured.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature in April, 2025 and are carried at cost. As of December 31, 2023 and December 31, 2022, there was \$100 in interest-bearing deposits in other financial institutions.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or accretion of discount. Premiums and discounts on securities are amortized or accreted on the level-yield method, except for mortgage-backed securities and collateralized mortgage obligations where prepayments are anticipated based on industry payment trends. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Allowance for credit losses on investment securities available for sale: For investment securities available for sale in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For investment securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value is less than the amortized cost basis. Unrealized losses that have not been recorded through an allowance for credit losses are recognized in other comprehensive income. Adjustments to the allowance for credit losses are reported in the income statement as a component of the provision for credit loss. The Company has made the accounting policy election to exclude accrued interest receivable on investment securities available for sale from the estimate of credit losses. Investment securities available for sale are charged off against the allowance or, in the absence of any allowance, written down through the income statement when deemed uncollectible or when either of the aforementioned criteria regarding intent or requirement to sell is met.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company did not record an allowance for credit losses on its investment securities available for sale as of December 31, 2023, as the unrealized losses were attributable to changes in interest rates, not credit quality.

Equity Securities: Equity securities without a readily determinable fair value are held at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. In accordance with ASC 321, the Company performs a qualitative assessment for equity securities without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and estimated fair value.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at fair value under the fair value option, as determined by outstanding commitments from investors. Mortgage loans held for sale are generally sold with servicing rights released. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights when mortgage loans held for sale are sold with servicing rights retained. Loans originated as construction loans, that were subsequently transferred to held for sale, are carried at the lower of cost or market. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Leases: Loans and leases that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, adjusted for purchase premiums and discounts, deferred loan fees and costs and an allowance for credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

The accrual of interest income on all classes of loans, except other consumer loans, is discontinued and the loan is placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Other consumer loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan for all classes of loans. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Commercial, multi-family residential real estate loans and commercial real estate loans placed on nonaccrual status are individually classified as impaired loans.

All interest accrued but not received for each loan placed on nonaccrual status is reversed against interest income in the period in which it is placed on nonaccrual status. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual status. Loans are considered for return to accrual status provided all the principal and interest amounts that are contractually due are brought current, there is a current and well documented credit analysis, there is reasonable assurance of repayment of principal and interest, and the customer has demonstrated sustained, amortizing payment performance of at least six months.

Concentration of Credit Risk: Most of the Company's primary business activity is with customers located within the Ohio counties of Franklin, Delaware, Hamilton, Cuyahoga and Summit and Marian County, Indiana and contiguous counties. Therefore, the Company's exposure to credit risk can be affected by changes in the economies within these counties. Although these counties are the Company's primary market area for loans, the Company originates residential and commercial real estate loans throughout the United States.

Adoption of ASC 326: Effective January 1, 2023, the Company adopted Accounting Standard Codification 326 ("ASC 326") "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Results for the periods beginning after January 1, 2023 are presented under the new "Current Expected Credit Losses" methodology under ASC 326, while prior period amounts continue to be reported in accordance with the "incurred loss" model under previously applicable GAAP.

Allowance for Credit Losses – Loans and Leases ("ACL - Loans"): The ACL - Loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans over the contractual term. Loans and leases are collectively referred to as loans for the purpose of discussing the allowance for credit losses. Loans are charged off against the allowance when the uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. Adjustments to the ACL - Loans are reported in the income statement as a component of provision for credit loss. The Company has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The ACL - Loans represents the Company's best estimate of current expected credit losses (CECL) on loans using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The CECL calculation is performed and evaluated quarterly and losses are estimated over the expected life of the loan. The level of the ACL - Loans is believed to be adequate to absorb all expected future losses inherent in the loan portfolio at the measurement date.

In calculating the ACL - Loans, the loan portfolio was pooled into loan segments with similar risk characteristics. Common characteristics include the type or purpose of the loan, underlying collateral and historical/expected credit loss patterns. In developing the loan segments, the Company analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors.

The expected credit losses are measured over the life of each loan segment utilizing the average charge-off methodology combined with economic forecast models to estimate the current expected credit loss inherent in the loan portfolio. This approach is also leveraged to estimate the expected credit losses associated with unfunded loan commitments incorporating expected utilization rates.

The Company sub-segmented certain commercial portfolios by risk level where appropriate. The Company utilized a one-year reasonable and supportable economic forecast period.

The Company qualitatively adjusts model results for risk factors that are not inherently considered in the historical losses, but are nonetheless relevant in assessing the expected credit losses within the loan portfolio. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of (i) changes in economic conditions, (ii) changes in the nature and volume of the loan portfolio, (iii) changes in the existence, growth and effect of any concentrations in credit, (iv) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (v) changes in the quality of the credit review function, (vi) changes in the experience, ability and depth of lending management and staff, (vii) changes in the volume and severity of past due and adversely classified loans and the volume of non-accrual loans, (viii) changes in the value of underlying collateral for collateral-dependent loans, and (ix) other environmental factors such as regulatory, legal and technological considerations, as well as competition.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within the loan segments. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific reserves in the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The fair value of collateral supporting collateral dependent loans is evaluated on a quarterly basis.

The following portfolio segments have been identified: commercial loans; single-family residential real estate loans; multi-family residential real estate loans; commercial real estate loans; construction loans; home equity lines of credit; and other consumer loans. A description of each segment of the loan portfolio, along with the risk characteristics of each segment, is included below.

**Commercial loans:** Commercial loans and direct financing leases include loans and leases to businesses generally located within our primary market area. Those loans and leases are typically secured by business equipment, inventory, accounts receivable and other business assets. In underwriting commercial loans, we consider the net operating income of the borrower, the debt service ratio and the financial strength, expertise and credit history of the business owners and/or guarantors. Because payments on commercial loans are dependent on successful operation of the business enterprise, repayment of such loans may be subject to a greater extent to adverse conditions in the economy. We seek to mitigate these risks through underwriting policies which require such loans to be qualified at origination on the basis of the borrower's financial performance and the financial strength of the business owners and/or guarantors.

**Single-family residential real estate loans:** Single-family residential real estate loans include permanent conventional mortgage loans secured by single-family residences that we originate for portfolio and purchased loans located primarily within our primary market area. Credit approval for single-family residential real estate loans requires demonstration of sufficient income to repay the principal and interest and the real estate taxes and insurance, stability of employment and an established credit record. Our policy is to originate quality loans that are evaluated for risk based on the borrower's ability to repay the loan. Collateral positions are established by obtaining independent appraisal opinions. Mortgage insurance may be required when the LTV exceeds 80%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Multi-family residential real estate loans:** Multi-family residential real estate loans include loans secured by apartment buildings, condominiums and multi-family residential houses generally located within our primary market area. Underwriting policies provide that multi-family residential real estate loans generally may be made in amounts up to 85% of the lower of the appraised value or purchase price of the property. In underwriting multi-family residential real estate loans, we consider the appraised value and net operating income of the property, the debt service ratio and the property owner's and/or guarantor's financial strength, expertise and credit history. We offer both fixed-rate and adjustable-rate loans. Fixed-rate loans are generally limited to three years to five years, at which time they convert to adjustable-rate loans. Because payments on loans secured by multi-family residential properties are dependent on successful operation or management of the properties, repayment of multi-family residential real estate loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. Adjustable-rate multi-family residential real estate loans generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the borrowers' payments rise, increasing the potential for default. Additionally, adjustable-rate multi-family residential real estate loans generally do not contain periodic and lifetime caps on interest rate changes. We seek to minimize the additional risk presented by adjustable-rate multi-family residential real estate loans through underwriting criteria that require such loans to be qualified at origination with sufficient debt coverage ratios under increasing interest rate scenarios.

**Commercial real estate loans:** Commercial real estate loans include loans secured by owner occupied and non-owner occupied properties used for business purposes, such as manufacturing facilities, office buildings or retail facilities generally located within our primary market area. Underwriting policies provide that commercial real estate loans may be made in amounts up to 85% of the lower of the appraised value or purchase price of the property. In underwriting commercial real estate loans, we consider the appraised value and net operating income of the property, the debt service ratio and the property owner's and/or guarantor's financial strength, expertise and credit history. We offer both fixed and adjustable-rate loans. Fixed-rate loans are generally limited to three years to five years, at which time they convert to adjustable-rate loans. Because payments on loans secured by commercial real estate properties are dependent on successful operation or management of the properties, repayment of commercial real estate loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. Adjustable-rate commercial real estate loans generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the borrowers' payments rise, increasing the potential for default. Additionally, adjustable-rate commercial real estate loans generally do not contain periodic and lifetime caps on interest rate changes. We seek to minimize the additional risk presented by adjustable-rate commercial real estate loans through underwriting criteria that require such loans to be qualified at origination with sufficient debt coverage ratios under increasing interest rate scenarios.

**Construction loans:** Construction loans include loans to finance the construction of residential and commercial properties generally located within our primary market area. Construction loans are fixed-rate or adjustable-rate loans which may convert to permanent loans with maturities of up to 30 years. Our policies provide that construction loans may generally be made in amounts up to 80% of the appraised value of the property, and an independent appraisal of the property is required. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant, and regular inspections are required to monitor the progress of construction. In underwriting construction loans, we consider the property owner's and/or guarantor's financial strength, expertise and credit history. Construction financing is considered to involve a higher degree of credit risk than long-term financing on improved, owner occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, we may be confronted with a project, when completed, having a value which is insufficient to assure full repayment. We attempt to reduce such risks on construction loans through inspections of construction progress on the property and by requiring personal guarantees and reviewing current personal financial statements and tax returns, as well as other projects of the developer.

**Home equity lines of credit:** Home equity lines of credit include both loans we originate for portfolio and purchased loans. We originate home equity lines of credit to customers generally within our primary market area. Home equity lines of credit are variable rate loans and the interest rate adjusts monthly at various margins to the prime rate of interest as disclosed in *The Wall Street Journal*. The margin is based on certain factors including the loan balance, value of collateral, election of auto-payment, and the borrower's FICO® score. The amount of the line is based on the borrower's credit, income and equity in the home. When combined with the balance of the prior mortgage liens, these lines generally may not exceed 89.9% of the appraised value of the property at the time of the loan commitment. The lines are secured by a subordinate lien on the underlying real estate and are, therefore, vulnerable to declines in property values in the geographic areas where the properties are located. Credit approval for home equity lines of credit requires income sufficient to repay principal and interest due, stability of employment, an established credit record and sufficient collateral. Collectability of home equity lines of credit are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. We continue to monitor collateral values and borrower FICO® scores on both purchased and portfolio loans and, when the situation warrants, have frozen the lines of credit.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other consumer loans: Other consumer loans include closed-end home equity, home improvement, auto, credit card loans and any purchased loans to consumers generally located within our primary market area. Credit approval for other consumer loans requires income sufficient to repay principal and interest due, stability of employment, an established credit record and sufficient collateral for secured loans. Consumer loans typically have shorter terms and lower balances with higher yields as compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances.

CFBank's charge-off policy for commercial loans, single-family residential real estate loans, multi-family residential real estate loans, commercial real estate loans, construction loans and home equity lines of credit requires management to record a specific reserve or charge-off as soon as it is apparent that the borrower is troubled and there is, or likely will be, a collateral shortfall related to the estimated value of the collateral securing the loan. Other consumer loans are typically charged off no later than 90 days past due.

Allowance for Loan and Lease Losses under prior GAAP (Incurred loss model): Prior to the adoption of ASC 326 and the current expected credit loss model on January 1, 2023, the Company maintained an allowance for loan and lease losses (ALLL) in accordance with the "incurred loss" model under previously applicable GAAP. The ALLL was a valuation allowance for probable incurred credit losses. Loan losses were charged against the allowance when management believed the uncollectibility of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance. Management estimated the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance were made for specific loans, but the entire allowance was available for any loan that, in management's judgment, should be charged off.

The allowance consisted of specific and general components. The specific component related to loans that were individually classified as impaired. A loan was impaired when, based on current information and events, it was probable that CFBank would be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans within any loan class for which the terms had been modified resulted in a concession, and for which the borrower was experiencing financial difficulties, were considered troubled debt restructurings (TDRs) and classified as impaired. See recent and future Accounting Pronouncement and Developments below for changes in 2023 to TDR accounting.

Factors considered by management in determining impairment for all loan classes included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined 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.

All substandard loans within the commercial, multi-family residential, commercial real estate and construction segments were individually evaluated for impairment when they were 90 days past due, or earlier than 90 days past due if information regarding the payment capacity of the borrower indicated that payment in full according to the loan terms was doubtful. If a loan was impaired, a portion of the allowance was allocated so that the loan was reported, net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral, less costs to sell, if repayment was expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer, single-family residential real estate loans and commercial leases, were collectively evaluated for impairment, and accordingly, they were not separately identified for impairment disclosures.

TDRs of all classes of loans were separately identified for impairment disclosures and were measured at the present value of estimated future cash flows using each loan's effective rate at inception. If a TDR was considered to be a collateral dependent loan, the loan was reported, net, at the fair value of the collateral. If the payment of the loan was dependent on the sale of the collateral, then costs to liquidate the collateral were included when determining the impairment. For TDRs that subsequently default, the amount of reserve was determined in accordance with the accounting policy for the ALLL.

The general reserve component covered non-impaired loans of all classes and was based on historical loss experience adjusted for current factors. The historical loss experience was determined by loan class and was based on the actual loss history experienced by CFBank over a three-year period. The general component was calculated based on CFBank's loan balances and actual three-year historical loss rates. For loans with little or no actual loss experience, industry estimates were used based on loan segment. This loss experience was supplemented with other economic and judgmental factors based on the risks present for each loan class. These economic and judgmental factors included consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses - Off-Balance Sheet Credit Exposures: The allowance for credit losses on off-balance sheet credit exposures is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. Off-balance sheet credit exposures primarily consist of amounts available under outstanding lines of credit and letters of credit. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. The allowance for off-balance sheet credit exposures is adjusted through the income statement as a component of provision for credit loss.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, an adjustment is recorded through expense. Operating costs after acquisition are expensed.

Low Income Housing Tax Credits (LIHTC): The Company has invested in LIHTCs through funds that assist corporations in investing in limited partnerships and limited liability companies that own, develop and operate low income residential rental properties for purposes of qualifying for the LIHTCs. These investments are accounted for under the proportional amortization method which recognizes the amortization of the investment in proportion to the tax credit and other tax benefits received.

Historic Tax Credits: The Company has made equity investments as a non-managing member in two entities that received historic tax credits (HTC) pursuant to Section 47 of the Internal Revenue Code. The Company receives a return through the realization of federal income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investment over a period of time. The HTC investments are accounted for under the equity method of accounting and are included in accrued interest receivable and other assets on the consolidated balance sheets. The Company's recorded investment in these entities was \$2,097 at December 31, 2023 and 2022. The maximum exposure to loss related to these investments was \$2,097 at December 31, 2023, representing the Company's investment balance.

Joint Ventures: The Holding Company has contributed funds into a series of joint ventures for the purpose of allocating excess liquidity into higher earning assets while diversifying its revenue sources. The joint ventures are engaged in shorter term operating activities related to single family real estate developments. Income is recognized based on a rate of return on the outstanding investment balance. As units are sold, the Holding Company receives an additional incentive payment. The balance outstanding in joint ventures at December 31, 2023 and December 31, 2022 was \$1,909 and \$1,568, respectively. Income recognized on the joint ventures was \$224, \$172, and \$224, respectively, for 2023, 2022 and 2021.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 3 years to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 2 years to 25 years. Leasehold improvements are depreciated straight-line over the shorter of the useful life or the lease term.

Federal Home Loan Bank (FHLB) stock: CFBank is a member of the Federal Home Loan Bank of Cincinnati (the "FHLB"). Members are required to own a certain amount of FHLB stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Reserve Bank (FRB) stock: CFBank is a member of the Federal Reserve System and is required to own a certain amount of stock in the FRB. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance: CFBank has purchased life insurance policies on certain directors and employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and issue commercial letters of credit to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded, and fees associated with origination are booked to non-interest income at the origination date.

Derivatives: Derivative financial instruments are recognized as assets or liabilities at fair value. The Company's derivatives consist mainly of interest rate swap agreements, which are used as part of its asset liability management program to help manage interest rate risk. The Company does not use derivatives for trading purposes. The derivative transactions are stand-alone derivatives with no hedging designation. Changes in the fair value of the derivatives are reported currently in earnings, as other noninterest income.

Mortgage Banking Derivatives: Commitments to fund mortgage loans to be sold into the secondary market, otherwise known as interest rate locks, are accounted for as free standing derivatives. Mortgage banking activities include two types of commitments: rate lock commitments and forward loan commitments. Fair values of these mortgage derivatives are based on anticipated gains on the underlying loans. Changes in the fair values of these derivatives are included in net gains on sales of loans.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to directors and employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the required service period for each separately vesting portion of the award. Forfeitures are recognized as incurred.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other noninterest expense.

Retirement Plans: Pension expense is the amount of annual contributions by the Company to the multi-employer contributory trustee pension plan. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Supplemental retirement plan expense allocates the benefits over years of service.

Earnings Per Common Share: Basic earnings per common share are calculated by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share include the dilutive effect, if any, of additional potential common shares issuable under the equity incentive plan, computed using the treasury stock method. See Note 20- Earnings Per Common Share.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity. Reclassifications from accumulated other comprehensive income are conducted on a specific identification method.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there were any such matters at December 31, 2023 that will have a material effect on the financial statements. See Note 21 – Contingent Liabilities.

Restrictions on Cash: Cash on deposit with the FHLB included \$3,300 pledged as collateral for FHLB advances at December 31, 2023.

Equity: Treasury stock is carried at cost. Shares sold out of treasury are valued based on the weighted average cost.

Dividend Restriction: Banking regulations require us to maintain certain capital levels and may limit the dividends paid by CFBank to the Holding Company or by the Holding Company to stockholders.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The ability of the Holding Company to pay dividends on its common stock is dependent upon the amount of cash and liquidity available at the Holding Company level, as well as the receipt of dividends and other distributions from CFBank to the extent necessary to fund such dividends. The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. The Holding Company also is subject to various legal and regulatory policies and guidelines impacting the Holding Company's ability to pay dividends on its stock. In addition, the Holding Company's ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities. Finally, under the terms of the Holding Company's fixed-to-floating rate subordinated debt, the Holding Company's ability to pay dividends on its stock is conditioned upon the Holding Company continuing to make required principal and interest payments, and not incurring an event of default, with respect to the subordinated debt.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 6 – Fair Value. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Advertising and Marketing Expense: Advertising costs are expensed as incurred and are recorded as advertising and marketing, a component of noninterest expense. Advertising and marketing expense also includes leads-based marketing for our residential mortgage lending business.

Operating Segments: While management monitors and analyzes the revenue streams of the Company's various products and services, the operations and financial performance is evaluated on a Company-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior period net income or stockholders' equity.

#### Recent and Future Accounting Pronouncements and Developments:

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU requires a new Current Expected Credit Losses ("CECL") methodology that replaces the previous "incurred loss" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio. CECL provides for an "expected loss" model for measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The new CECL model requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied historically are still permitted, although the inputs to those techniques will reflect the full amount of expected credit losses. Organizations continue to use judgment to determine which loss estimation method is appropriate for their circumstances. ASU 2016-13 requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, ASU 2016-13 amended the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 was effective for the Company on January 1, 2023.

The CECL methodology under ASU 2016-13 applies to loans held for investment, held to maturity debt securities, and off balance-sheet credit exposures. The ASU allows for several different methods of computing the allowance for credit losses: closed pool, vintage, average charge-off, migration, probability of default / loss given default, discounted cash flow, and regression. Based on its analysis of observable data, the Company concluded the average charge-off method to be the most appropriate and statistically relevant. A lookback to March 31, 2000 was utilized as the historical loss period due to its inclusion of several economic cycles and relevance to real estate secured assets.

Upon implementation of ASU 2016-13, the expected loss estimate is made up of a historical lookback of actual losses applied over the life of the loan portfolio and adjusted for qualitative factors and forecasted losses based on economic and forward-looking data applied over a reasonable and supportable forecast period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The impact of the Company's adoption of ASU 2016-13, effective January 1, 2023, was a one-time cumulative-effect adjustment increasing our reserves for loans and unfunded commitments by \$49.

The qualitative impact of the new accounting standard is still directed by many of the same factors that impacted the previous methodology for computing the allowance for loan and lease losses (ALLL), including, but not limited to, economic conditions, quality and experience of staff, changes in the value of collateral, concentrations of credit in loan types or industries and changes to lending policies. In addition to this, the Company will also use reasonable and supportable forecasts. Examples of this are regression analyses of data from the Federal Open Market Committee quarterly economic projections for change in real GDP and of national unemployment.

The Company did not have any material changes to its business practices as a result of implementing ASU 2016-13.

In March 2022, the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." This ASU eliminated the accounting guidance on troubled debt restructurings ("TDRs") for creditors in ASC 310-40 and required entities to evaluate all receivable modifications under ASC 310-20 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The amended guidance added enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amended guidance also required disclosure of current period gross charge-offs by year of origination within the vintage disclosures required by ASC 326. The Company adopted ASU 2022-02 on January 1, 2023. The adoption of ASU 2022-02 did not have a material impact to our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. They provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. As subsequently amended, this update is effective December 31, 2024. The adoption of ASU No. 2020-04 did not have a material impact on our consolidated financial statements.

#### Future Accounting Matters:

In March 2023, the FASB issued ASU No. 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using Proportional Amortization Method. The ASU is intended to improve the accounting and disclosures for investments in tax credit structures. It allows reporting entities to elect to adopt for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements, but adoption of the standard is not expected to have a significant impact on the Company's financial statements or disclosures.

In August 2023, FASB issued ASU 2023-05, Business Combinations - Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement. The amendments in this ASU require that a joint venture, upon formation, apply a new basis of accounting and initially measure assets and liabilities at fair value, with exceptions to fair value measurement that are consistent with the business combinations guidance. This update will be effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Early adoption is permitted. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." The amendments apply to all public entities that are required to report segment information in accordance with FASB ASC Topic 280, Segment Reporting. The amendments in the ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The amendments require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit or loss. Public entities are required to disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition. In addition, public entities must provide all annual disclosures about a reportable segment's profit or loss and assets currently required by FASB ASC Topic 280, Segment Reporting, in interim periods. The amendments clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Amendments require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. Finally, the amendments require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in the ASU and all existing segment disclosures in ASC Topic 280. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The Company is currently evaluating the potential impacts related to the adoption of the ASU.

In December 2023, FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (“ASU 2023-09”). The FASB issued ASU 2023-09 to address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. ASU 2023-09 is to be applied on a prospective basis and is effective for annual periods beginning after December 15, 2024 with early adoption permitted. ASU 2023-09 will impact income tax disclosures, and the Company does not expect a material impact to the Company’s consolidated financial statements.

### NOTE 2- REVENUE RECOGNITION

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit, derivatives and investment securities, as well as revenue related to our mortgage activities related to net gains on sale of loans.

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of noninterest income, are as follows:

- Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity, or transaction-based fees, and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

### NOTE 3 – SECURITIES

The following tables summarize the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2023 and December 31, 2022 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

|                                                            | Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|------------------------------------------------------------|----------------|------------------------------|-------------------------------|------------|
| December 31, 2023                                          |                |                              |                               |            |
| Corporate debt                                             | \$ 9,980       | \$ -                         | \$ 2,880                      | \$ 7,100   |
| Issued by U.S. government-sponsored entities and agencies: |                |                              |                               |            |
| U.S. Treasury                                              | 1,007          | -                            | 19                            | 988        |
| Mortgage-backed securities - residential                   | 4              | -                            | -                             | 4          |
| Total                                                      | \$ 10,991      | \$ -                         | \$ 2,899                      | \$ 8,092   |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 3 – SECURITIES (continued)

|                                                            | Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|------------------------------------------------------------|----------------|------------------------------|-------------------------------|------------|
| December 31, 2022                                          |                |                              |                               |            |
| Corporate debt                                             | \$ 9,978       | \$ -                         | \$ 2,478                      | \$ 7,500   |
| Issued by U.S. government-sponsored entities and agencies: |                |                              |                               |            |
| U.S. Treasury                                              | 3,025          | -                            | 100                           | 2,925      |
| Mortgage-backed securities - residential                   | 17             | -                            | -                             | 17         |
| Total                                                      | \$ 13,020      | \$ -                         | \$ 2,578                      | \$ 10,442  |

There was no impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at December 31, 2023 or December 31, 2022.

There were no sales of securities during the years ended December 31, 2023, December 31, 2022 and December 31, 2021.

The amortized cost and fair value of debt securities at December 31, 2023 and December 31, 2022 are shown in the table below by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

|                                          | December 31, 2023 |            | December 31, 2022 |            |
|------------------------------------------|-------------------|------------|-------------------|------------|
|                                          | Amortized Cost    | Fair Value | Amortized Cost    | Fair Value |
| Due in one year or less                  | \$ 1,007          | \$ 988     | \$ 2,001          | \$ 1,961   |
| Due from one to five years               | -                 | -          | 1,024             | 964        |
| Due from five to ten years               | 9,980             | 7,100      | 9,978             | 7,500      |
| Mortgage-backed securities - residential | 4                 | 4          | 17                | 17         |
| Total                                    | \$ 10,991         | \$ 8,092   | \$ 13,020         | \$ 10,442  |

Fair value of securities pledged was as follows:

|                              | At December 31, |          |          |
|------------------------------|-----------------|----------|----------|
|                              | 2023            | 2022     | 2021     |
| Pledged as collateral for:   |                 |          |          |
| FHLB advances                | \$ 497          | \$ 967   | \$ 1,016 |
| Public deposits              | 492             | 479      | 501      |
| Mortgage banking derivatives | -               | -        | 1,504    |
| Total                        | \$ 989          | \$ 1,446 | \$ 3,021 |

At year-end 2023, 2022 and 2021, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity.

The following table summarizes securities with unrealized losses at December 31, 2023 and December 31, 2022 aggregated by major security type and length of time in a continuous unrealized loss position.

| December 31, 2023                                          | Less than 12 Months |                    | 12 Months or More |                    | Total      |                    |
|------------------------------------------------------------|---------------------|--------------------|-------------------|--------------------|------------|--------------------|
| Description of Securities                                  | Fair Value          | Unrealized<br>Loss | Fair Value        | Unrealized<br>Loss | Fair Value | Unrealized<br>Loss |
| Corporate debt                                             | \$ -                | \$ -               | \$ 7,100          | \$ 2,880           | \$ 7,100   | \$ 2,880           |
| Issued by U.S. government-sponsored entities and agencies: |                     |                    |                   |                    |            |                    |
| U.S. Treasury                                              | -                   | -                  | 988               | 19                 | 988        | 19                 |
| Mortgage-backed securities - residential <sup>(1)</sup>    | 1                   | -                  | 3                 | -                  | 4          | -                  |
| Total temporarily impaired                                 | \$ 1                | \$ -               | \$ 8,091          | \$ 2,899           | \$ 8,092   | \$ 2,899           |

<sup>(1)</sup> Unrealized loss is less than \$1 resulting in rounding to zero.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 3 – SECURITIES (continued)

| December 31, 2022                                          | Less than 12 Months |                 | 12 Months or More |                 | Total            |                 |
|------------------------------------------------------------|---------------------|-----------------|-------------------|-----------------|------------------|-----------------|
|                                                            | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value       | Unrealized Loss |
| Description of Securities                                  |                     |                 |                   |                 |                  |                 |
| Corporate debt                                             | \$ -                | \$ -            | \$ 7,500          | \$ 2,478        | \$ 7,500         | \$ 2,478        |
| Issued by U.S. government-sponsored entities and agencies: |                     |                 |                   |                 |                  |                 |
| U.S. Treasury                                              | 1,482               | 19              | 1,443             | 81              | 2,925            | 100             |
| Mortgage-backed securities - residential <sup>(1)</sup>    | 17                  | -               | -                 | -               | 17               | -               |
| Total temporarily impaired                                 | <u>\$ 1,499</u>     | <u>\$ 19</u>    | <u>\$ 8,943</u>   | <u>\$ 2,559</u> | <u>\$ 10,442</u> | <u>\$ 2,578</u> |

<sup>(1)</sup> Unrealized loss is less than \$1 resulting in rounding to zero.

The unrealized losses at December 31, 2023 were related to one Corporate debt security, one Mortgage-backed security and two U.S. Treasuries. The unrealized losses at December 31, 2022 were related to one Corporate debt security, two Mortgage-backed securities and multiple U.S. Treasuries. Because the decline in fair value was attributable to changes in market conditions, and not credit quality, and because the Company did not have the intent to sell these securities and would unlikely be required to sell these securities before their anticipated recovery, the Company did not consider these securities to be impaired at December 31, 2023 and December 31, 2022.

### NOTE 4 – LOANS AND LEASES

The following table presents the recorded investment in loans and leases by portfolio segment. The recorded investment in loans and leases includes the principal balance outstanding adjusted for purchase premiums and discounts, and deferred loan fees and costs.

|                             | December 31, 2023   | December 31, 2022   |
|-----------------------------|---------------------|---------------------|
| Commercial <sup>(1)</sup>   | \$ 439,895          | \$ 427,423          |
| Real estate:                |                     |                     |
| Single-family residential   | 478,224             | 465,057             |
| Multi-family residential    | 130,778             | 104,148             |
| Commercial                  | 433,026             | 375,092             |
| Construction                | 190,722             | 184,122             |
| Consumer:                   |                     |                     |
| Home equity lines of credit | 35,960              | 30,748              |
| Other                       | 2,393               | 1,727               |
| Subtotal                    | 1,710,998           | 1,588,317           |
| Less: ACL – Loans           | (16,865)            | (16,062)            |
| Loans and Leases, net       | <u>\$ 1,694,133</u> | <u>\$ 1,572,255</u> |

<sup>(1)</sup> Includes \$13,497 and \$20,768 of commercial leases at December 31, 2023 and December 31, 2022, respectively.

### Allowance for Credit Losses on Loans (ACL – Loans)

As discussed in Note 1, effective January 1, 2023, the Company adopted ASC 326. Results for the periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with the “incurred loss” model under previously applicable GAAP.

The ACL - Loans is a valuation account that is deducted from the amortized cost basis of loans and leases to present the net amount expected to be collected on loans over the contractual term. The ACL - Loans is adjusted by the provision for credit losses, which is reported in earnings, and reduced by charge offs for loans, net of recoveries. Provision for credit losses on loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Loans are charged off against the allowance when the uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 4 – LOANS AND LEASES (continued)

The ACL - Loans represents the Company's best estimate of current expected credit losses (CECL) on loans using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The CECL calculation is performed and evaluated quarterly and losses are estimated over the expected life of the loan. The level of the ACL - Loans is believed to be adequate to absorb all expected future losses inherent in the loan portfolio at the measurement date.

In calculating the ACL - Loans, the loan portfolio was pooled into loan segments with similar risk characteristics. Common characteristics include the type or purpose of the loan, underlying collateral and historical/expected credit loss patterns. In developing the loan segments, the Company analyzed the degree of correlation in how loans within each portfolio respond when subjected to varying economic conditions and scenarios as well as other portfolio stress factors.

The expected credit losses are measured over the life of each loan segment utilizing the average charge-off methodology combined with economic forecast models to estimate the current expected credit loss inherent in the loan portfolio. This approach is also leveraged to estimate the expected credit losses associated with unfunded loan commitments incorporating expected utilization rates.

The Company sub-segmented certain commercial portfolios by risk level where appropriate. The Company utilized a one-year reasonable and supportable economic forecast period.

The Company qualitatively adjusts model results for risk factors that are not inherently considered in the historical losses, but are nonetheless relevant in assessing the expected credit losses within the loan portfolio. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. The various risks that may be considered in making qualitative adjustments include, among other things, the impact of (i) changes in economic conditions, (ii) changes in the nature and volume of the loan portfolio, (iii) changes in the existence, growth and effect of any concentrations in credit, (iv) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (v) changes in the quality of the credit review function, (vi) changes in the experience, ability and depth of lending management and staff, (vii) changes in the volume and severity of past due and adversely classified loans and the volume of non-accrual loans, (viii) changes in the value of underlying collateral for collateral-dependent loans, and (ix) other environmental factors such as regulatory, legal and technological considerations, as well as competition.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within the loan segments. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific reserves in the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The fair value of collateral supporting collateral dependent loans is evaluated on a quarterly basis.

The following table presents the activity in the ACL - Loans by portfolio segment for the year ended December 31, 2023.

|                                                 | December 31, 2023 |               |              |            |              |                             |        |           |
|-------------------------------------------------|-------------------|---------------|--------------|------------|--------------|-----------------------------|--------|-----------|
|                                                 | Real Estate       |               |              |            | Consumer     |                             |        | Total     |
|                                                 | Commercial        | Single-family | Multi-family | Commercial | Construction | Home equity lines of credit | Other  |           |
| <b>Allowance for credit losses</b>              |                   |               |              |            |              |                             |        |           |
| Balances, December 31, 2022                     | \$ 4,764          | \$ 3,914      | \$ 997       | \$ 3,384   | \$ 2,644     | \$ 333                      | \$ 26  | \$ 16,062 |
| Impact of adoption of ASC 326                   | 877               | (958)         | 66           | 726        | (1,019)      | (129)                       | 28     | (409)     |
| Balances, January 1, 2023 Post-ASC 326 adoption | 5,641             | 2,956         | 1,063        | 4,110      | 1,625        | 204                         | 54     | 15,653    |
| Provision of credit losses                      | 933               | 375           | 168          | (5)        | 82           | 126                         | 179    | 1,858     |
| Recoveries on loans                             | 85                | 40            | -            | -          | -            | 4                           | 3      | 132       |
| Loans charged off                               | (775)             | -             | -            | -          | -            | -                           | (3)    | (778)     |
| Balances, December 31, 2023                     | \$ 5,884          | \$ 3,371      | \$ 1,231     | \$ 4,105   | \$ 1,707     | \$ 334                      | \$ 233 | \$ 16,865 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 4 – LOANS AND LEASES (continued)

### Allowance for Loan and Lease Losses under prior GAAP (Incurred Loss Model):

Prior to the adoption of ASC 326 on January 1, 2023, the Company maintained an allowance for loan and lease losses (ALLL) in accordance with the Incurred Loss Model.

The following tables present the activity in the ALLL by portfolio segment for the years ended December 31, 2022 and 2021:

|                                                      | December 31, 2022 |                 |               |                 |                 |                             |              |                  |
|------------------------------------------------------|-------------------|-----------------|---------------|-----------------|-----------------|-----------------------------|--------------|------------------|
|                                                      | Real Estate       |                 |               |                 |                 | Consumer                    |              | Total            |
|                                                      | Commercial        | Single-family   | Multi-family  | Commercial      | Construction    | Home Equity lines of credit | Other        |                  |
| Beginning balance                                    | \$ 4,127          | \$ 3,348        | \$ 827        | \$ 5,034        | \$ 1,744        | \$ 272                      | \$ 156       | \$ 15,508        |
| Addition to (reduction in) provision for loan losses | 900               | 547             | 170           | (1,650)         | 900             | 50                          | (130)        | 787              |
| Charge-offs                                          | (263)             | -               | -             | -               | -               | -                           | -            | (263)            |
| Recoveries                                           | -                 | 19              | -             | -               | -               | 11                          | -            | 30               |
| Ending balance                                       | <u>\$ 4,764</u>   | <u>\$ 3,914</u> | <u>\$ 997</u> | <u>\$ 3,384</u> | <u>\$ 2,644</u> | <u>\$ 333</u>               | <u>\$ 26</u> | <u>\$ 16,062</u> |

|                                                      | December 31, 2021 |                 |               |                 |                 |                             |               |                  |
|------------------------------------------------------|-------------------|-----------------|---------------|-----------------|-----------------|-----------------------------|---------------|------------------|
|                                                      | Real Estate       |                 |               |                 |                 | Consumer                    |               | Total            |
|                                                      | Commercial        | Single-family   | Multi-family  | Commercial      | Construction    | Home Equity lines of credit | Other         |                  |
| Beginning balance                                    | \$ 3,426          | \$ 1,299        | \$ 467        | \$ 9,184        | \$ 2,254        | \$ 276                      | \$ 116        | \$ 17,022        |
| Addition to (reduction in) provision for loan losses | 645               | 2,040           | 360           | (4,150)         | (510)           | (25)                        | 40            | (1,600)          |
| Charge-offs                                          | -                 | (17)            | -             | -               | -               | -                           | -             | (17)             |
| Recoveries                                           | 56                | 26              | -             | -               | -               | 21                          | -             | 103              |
| Ending balance                                       | <u>\$ 4,127</u>   | <u>\$ 3,348</u> | <u>\$ 827</u> | <u>\$ 5,034</u> | <u>\$ 1,744</u> | <u>\$ 272</u>               | <u>\$ 156</u> | <u>\$ 15,508</u> |

Determining fair value for collateral dependent loans requires obtaining a current independent appraisal of the collateral and applying a discount factor, which includes selling costs if applicable, to the value. The fair value of real estate is generally based on appraisals by qualified licensed appraisers. The appraisers typically determine the value of the real estate by utilizing an income or market valuation approach. If an appraisal is not available, the fair value may be determined by using a cash flow analysis. The fair value of other collateral such as business assets is typically ascertained by assessing, either singularly or some combination of, asset appraisals, accounts receivable aging reports, inventory listings and/or customer financial statements. Both appraised values and values based on the borrower's financial information are discounted as considered appropriate based on age and quality of the information and current market conditions.

The table below presents the amortized cost basis of collateral dependent loans by loan class and their respective collateral types, which are individually evaluated to determine expected credit losses.

|                           | December 31, 2023       |               |                                         |              |
|---------------------------|-------------------------|---------------|-----------------------------------------|--------------|
|                           | Residential Real Estate |               | Allowance on Collateral Dependent Loans |              |
|                           | Other                   | Total         | Other                                   | Total        |
| Commercial                | \$ -                    | \$ 449        | \$ -                                    | \$ 44        |
| Real estate:              |                         |               |                                         |              |
| Single-family residential | 90                      | 90            | -                                       | -            |
| Total                     | <u>\$ 90</u>            | <u>\$ 539</u> | <u>\$ -</u>                             | <u>\$ 44</u> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 4 – LOANS AND LEASES (continued)

The following table presents the balance in the ALLL and the recorded investment in loans and leases by portfolio segment and based on impairment method as of December 31, 2022:

|                                                 | Real Estate         |                     | Consumer          |                   |                   |                             |                 |                     |
|-------------------------------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-----------------------------|-----------------|---------------------|
|                                                 | Commercial          | Single-family       | Multi-family      | Commercial        | Construction      | Home Equity lines of credit | Other           | Total               |
| <b>ALLL:</b>                                    |                     |                     |                   |                   |                   |                             |                 |                     |
| Ending allowance balance attributable to loans: |                     |                     |                   |                   |                   |                             |                 |                     |
| Individually evaluated for impairment           | \$ - <sup>(1)</sup> | \$ - <sup>(1)</sup> | \$ -              | \$ -              | \$ -              | \$ -                        | \$ -            | \$ -                |
| Collectively evaluated for impairment           | 4,764               | 3,914               | 997               | 3,384             | 2,644             | 333                         | 26              | 16,062              |
| Total ending allowance balance                  | <u>\$ 4,764</u>     | <u>\$ 3,914</u>     | <u>\$ 997</u>     | <u>\$ 3,384</u>   | <u>\$ 2,644</u>   | <u>\$ 333</u>               | <u>\$ 26</u>    | <u>\$ 16,062</u>    |
| <b>Loans:</b>                                   |                     |                     |                   |                   |                   |                             |                 |                     |
| Individually evaluated for impairment           | \$ 80               | \$ 95               | \$ -              | \$ -              | \$ -              | \$ -                        | \$ -            | \$ 175              |
| Collectively evaluated for impairment           | 427,343             | 464,962             | 104,148           | 375,092           | 184,122           | 30,748                      | 1,727           | 1,588,142           |
| Total ending loan balance                       | <u>\$ 427,423</u>   | <u>\$ 465,057</u>   | <u>\$ 104,148</u> | <u>\$ 375,092</u> | <u>\$ 184,122</u> | <u>\$ 30,748</u>            | <u>\$ 1,727</u> | <u>\$ 1,588,317</u> |

<sup>(1)</sup> Allowance recorded is less than \$1 resulting in rounding to zero.

The following tables present loans individually evaluated for impairment by class of loans as of and for the year ended December 31, 2022 and 2021. The unpaid principal balance is the contractual principal balance outstanding. The recorded investment is the unpaid principal balance adjusted for partial charge-offs, purchase premiums and discounts, deferred loan fees and costs. Cash payments of interest on these loans during the twelve months ended December 31, 2022 and 2021 totaled \$47 and \$169, respectively.

At or for the year ended December 31, 2022:

|                                            | Unpaid Principal Balance | Recorded Investment | ALLL Allocated | Average Recorded Investment | Interest Income Recognized |
|--------------------------------------------|--------------------------|---------------------|----------------|-----------------------------|----------------------------|
| <b>With no related allowance recorded:</b> |                          |                     |                |                             |                            |
| Real estate:                               |                          |                     |                |                             |                            |
| Commercial:                                |                          |                     |                |                             |                            |
| Owner occupied                             | \$ -                     | \$ -                | \$ -           | \$ -                        | \$ -                       |
| Total with no allowance recorded           | -                        | -                   | -              | -                           | -                          |
| <b>With an allowance recorded:</b>         |                          |                     |                |                             |                            |
| Commercial <sup>(1)</sup>                  | 371                      | 80                  | -              | 125                         | 1                          |
| Real estate:                               |                          |                     |                |                             |                            |
| Single-family residential <sup>(1)</sup>   | 95                       | 95                  | -              | 97                          | 5                          |
| Commercial:                                |                          |                     |                |                             |                            |
| Non-owner occupied                         | -                        | -                   | -              | 350                         | 17                         |
| Total with an allowance recorded           | <u>466</u>               | <u>175</u>          | <u>-</u>       | <u>572</u>                  | <u>23</u>                  |
| Total                                      | <u>\$ 466</u>            | <u>\$ 175</u>       | <u>\$ -</u>    | <u>\$ 572</u>               | <u>\$ 23</u>               |

<sup>(1)</sup> Allowance recorded is less than \$1 resulting in rounding to zero

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 4 – LOANS AND LEASES (continued)

At or for the year ended December 31, 2021:

|                                          | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | ALLL<br>Allocated | Average<br>Recorded<br>Investment | Interest Income<br>Recognized |
|------------------------------------------|--------------------------------|------------------------|-------------------|-----------------------------------|-------------------------------|
| With no related allowance recorded:      |                                |                        |                   |                                   |                               |
| Real estate:                             |                                |                        |                   |                                   |                               |
| Commercial:                              |                                |                        |                   |                                   |                               |
| Owner occupied                           | \$ -                           | \$ -                   | \$ -              | \$ -                              | \$ -                          |
| Total with no allowance recorded         | -                              | -                      | -                 | -                                 | -                             |
| With an allowance recorded:              |                                |                        |                   |                                   |                               |
| Commercial <sup>(1)</sup>                | 485                            | 221                    | -                 | 241                               | 9                             |
| Real estate:                             |                                |                        |                   |                                   |                               |
| Single-family residential <sup>(1)</sup> | 99                             | 99                     | -                 | 101                               | 6                             |
| Commercial:                              |                                |                        |                   |                                   |                               |
| Non-owner occupied                       | 2,658                          | 2,658                  | 20                | 2,688                             | 150                           |
| Total with an allowance recorded         | 3,242                          | 2,978                  | 20                | 3,030                             | 165                           |
| Total                                    | \$ 3,242                       | \$ 2,978               | \$ 20             | \$ 3,030                          | \$ 165                        |

<sup>(1)</sup> Allowance recorded is less than \$1 resulting in rounding to zero

The following table presents the recorded investment in non-accrual loans by class of loans at December 31, 2023:

|                              | Non-Accrual Loans | Non-Accrual Loans with no<br>Allowance for Credit Losses |
|------------------------------|-------------------|----------------------------------------------------------|
| Commercial                   | \$ 5,048          | \$ 1,658                                                 |
| Real estate:                 |                   |                                                          |
| Single-family residential    | 627               | 627                                                      |
| Consumer:                    |                   |                                                          |
| Home equity lines of credit: | 17                | 17                                                       |
| Other consumer               | 30                | 30                                                       |
| Total nonaccrual loans       | \$ 5,722          | \$ 2,332                                                 |

Of the \$5.7 million of nonaccrual loans at December 31, 2023, \$1.1 million is guaranteed by the SBA.

The following table presents the recorded investment in nonperforming loans by class of loans as of December 31, 2022:

|                                              | 2022   |
|----------------------------------------------|--------|
| Loans past due over 90 days still on accrual | \$ -   |
| Nonaccrual loans:                            |        |
| Commercial                                   | 99     |
| Real estate:                                 |        |
| Single-family residential                    | 641    |
| Commercial:                                  |        |
| Consumer:                                    |        |
| Home equity lines of credit:                 |        |
| Originated for portfolio                     | 18     |
| Purchased for portfolio                      | -      |
| Other consumer                               | 3      |
| Total nonaccrual                             | 761    |
| Total nonperforming loans                    | \$ 761 |

Nonaccrual loans include both single-family mortgage, consumer loans and commercial leases that are collectively evaluated for impairment and individually classified impaired loans. There were no loans 90 days or more past due and still accruing interest at December 31, 2023 or December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

**NOTE 4 – LOANS AND LEASES (continued)**

The following table presents the aging of the recorded investment in past due loans and leases by class of loans as of December 31, 2023:

|                              | 30 - 59 Days<br>Past Due | 60 - 89 Days<br>Past Due | 90 Days or<br>more Past Due | Total Past<br>Due | Loans Not<br>Past Due | Nonaccrual<br>Loans Not<br>90 days or<br>more Past<br>Due |
|------------------------------|--------------------------|--------------------------|-----------------------------|-------------------|-----------------------|-----------------------------------------------------------|
| Commercial                   | \$ 98                    | \$ -                     | \$ 622                      | \$ 720            | \$ 439,175            | \$ 4,426                                                  |
| Real estate:                 |                          |                          |                             |                   |                       |                                                           |
| Single-family residential    | 165                      | 372                      | 563                         | 1,100             | 477,124               | 64                                                        |
| Multi-family residential     | -                        | -                        | -                           | -                 | 130,778               | -                                                         |
| Commercial:                  |                          |                          |                             |                   |                       |                                                           |
| Non-owner occupied           | -                        | -                        | -                           | -                 | 228,548               | -                                                         |
| Owner occupied               | -                        | -                        | -                           | -                 | 183,773               | -                                                         |
| Land                         | -                        | -                        | -                           | -                 | 20,705                | -                                                         |
| Construction                 | -                        | -                        | -                           | -                 | 190,722               | -                                                         |
| Consumer:                    |                          |                          |                             |                   |                       |                                                           |
| Home equity lines of credit: |                          |                          |                             |                   |                       |                                                           |
| Originated for portfolio     | 97                       | -                        | 17                          | 114               | 35,846                | -                                                         |
| Purchased for portfolio      | -                        | -                        | -                           | -                 | -                     | -                                                         |
| Other                        | -                        | -                        | 30                          | 30                | 2,363                 | -                                                         |
| Total                        | <u>\$ 360</u>            | <u>\$ 372</u>            | <u>\$ 1,232</u>             | <u>\$ 1,964</u>   | <u>\$ 1,709,034</u>   | <u>\$ 4,490</u>                                           |

The following table presents the aging of the recorded investment in past due loans and leases by class of loans as of December 31, 2022:

|                              | 30 - 59 Days<br>Past Due | 60 - 89 Days<br>Past Due | 90 Days or<br>more Past Due | Total Past<br>Due | Loans Not<br>Past Due | Nonaccrual<br>Loans Not<br>90 days or<br>more Past<br>Due |
|------------------------------|--------------------------|--------------------------|-----------------------------|-------------------|-----------------------|-----------------------------------------------------------|
| Commercial                   | \$ 255                   | \$ -                     | \$ 99                       | \$ 354            | \$ 427,069            | \$ -                                                      |
| Real estate:                 |                          |                          |                             |                   |                       |                                                           |
| Single-family residential    | 966                      | 167                      | 563                         | 1,696             | 463,361               | 78                                                        |
| Multi-family residential     | -                        | -                        | -                           | -                 | 104,148               | -                                                         |
| Commercial:                  |                          |                          |                             |                   |                       |                                                           |
| Non-owner occupied           | -                        | -                        | -                           | -                 | 169,686               | -                                                         |
| Owner occupied               | -                        | -                        | -                           | -                 | 172,698               | -                                                         |
| Land                         | -                        | -                        | -                           | -                 | 32,708                | -                                                         |
| Construction                 | -                        | -                        | -                           | -                 | 184,122               | -                                                         |
| Consumer:                    |                          |                          |                             |                   |                       |                                                           |
| Home equity lines of credit: |                          |                          |                             |                   |                       |                                                           |
| Originated for portfolio     | 29                       | -                        | 18                          | 47                | 30,701                | -                                                         |
| Purchased for portfolio      | -                        | -                        | -                           | -                 | -                     | -                                                         |
| Other                        | -                        | -                        | 3                           | 3                 | 1,724                 | -                                                         |
| Total                        | <u>\$ 1,250</u>          | <u>\$ 167</u>            | <u>\$ 683</u>               | <u>\$ 2,100</u>   | <u>\$ 1,586,217</u>   | <u>\$ 78</u>                                              |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 4 – LOANS AND LEASES (continued)

#### Troubled Debt Restructurings (TDRs):

Prior to the adoption of ASU 2022-02, from time to time, the terms of certain loans were modified as TDRs, where concessions were granted to borrowers experiencing financial difficulties. The modification of the terms of such loans may have included one or a combination of the following: a reduction of the stated interest rate of the loan; an increase in the stated rate of interest lower than the current market rate for new debt with similar risk; an extension of the maturity date; or a change in the payment terms.

As of December 31, 2022, TDRs totaled \$175. The Company allocated \$0 of specific reserves to loans modified in TDRs as of December 31, 2022. The Company had not committed to lend any additional amounts as of December 31, 2022 to customers with outstanding loans that were classified as nonaccrual TDRs.

During the year ended December 31, 2022, there were no loans modified as a TDR.

There was one TDR that went into payment default during the year ended December 31, 2022.

In order to determine whether a borrower was experiencing financial difficulty, an evaluation was performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation was performed under the Company's internal underwriting policy.

Nonaccrual loans include loans that were modified and identified as TDRs and the loans are not performing. At December 31, 2022, nonaccrual TDRs were as follows:

|            | 2022 |    |
|------------|------|----|
| Commercial | \$   | 80 |
| Total      | \$   | 80 |

Nonaccrual loans at December 31, 2022 did not include \$95 of TDRs where customers had established a sustained period of repayment performance, generally six months, the loans were current according to their modified terms and repayment of the remaining contractual payments was expected. These loans are included in total impaired loans.

#### Loan Modifications:

The Company adopted ASU 2022-02 during the first quarter of 2023. This amendment eliminated the TDR recognition and measurement guidance and, instead, required that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loans. The amendments also enhanced existing disclosure requirements and introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.

During the year ended December 31, 2023, the Company modified one commercial loan, totaling \$2.9 million, where the borrower was experiencing financial difficulty. The loan was modified to defer principal and interest payments for up to one year. For any period where the payments are deferred, the note will accrue at a higher rate of interest. The loan was not past due during the year ended December 31, 2023.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 4 – LOANS AND LEASES (continued)

#### Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Management analyzes loans individually by classifying the loans as to credit risk. This analysis includes commercial, commercial real estate and multi-family residential real estate loans. Internal loan reviews for these loan types are typically performed annually, and more often for loans with higher credit risk. Adjustments to loan risk ratings are based on the reviews and at any time information is received that may affect risk ratings. The following definitions are used for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of CFBank's credit position at some future date.

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 so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that there will be some loss if the deficiencies are not corrected.

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

Loans not meeting the criteria to be classified into one of the above categories are considered to be not rated or pass-rated loans. Loans listed as not rated are included in groups of homogeneous loans. Past due information is the primary credit indicator for groups of homogenous loans. Loans listed as pass-rated are loans that are subject to internal loan reviews and are determined not to meet the criteria required to be classified as special mention, substandard, doubtful or loss.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 4 – LOANS AND LEASES (continued)

The following table summarizes the risk grading of the Company's loan portfolio by loan class and by year of origination for the years indicated as of December 31, 2023. Consumer and Single-family residential loans are not risk graded. For purposes of this disclosure, those loans are classified in the following manner: loans that are 89 days or less past due and accruing are "performing" loans and loans greater than 89 days past due or in nonaccrual are "nonperforming" loans.

|                                        | Term Loans (amortized cost basis by origination year) |            |            |            |           |            | Revolving<br>loans<br>amortized<br>cost basis | Revolving<br>loans<br>converted<br>to term | Total        |
|----------------------------------------|-------------------------------------------------------|------------|------------|------------|-----------|------------|-----------------------------------------------|--------------------------------------------|--------------|
|                                        | 2023                                                  | 2022       | 2021       | 2020       | 2019      | Prior      |                                               |                                            |              |
| Commercial and Industrial              |                                                       |            |            |            |           |            |                                               |                                            |              |
| Pass                                   | \$ 32,965                                             | \$ 86,433  | \$ 90,297  | \$ 45,670  | \$ 3,189  | \$ 9,888   | \$ 159,065                                    | \$ 1,078                                   | \$ 428,585   |
| Special Mention                        | -                                                     | -          | 2,807      | -          | 84        | -          | -                                             | -                                          | 2,891        |
| Substandard                            | -                                                     | 384        | 7,537      | -          | -         | -          | 50                                            | -                                          | 7,971        |
| Doubtful                               | -                                                     | 448        | -          | -          | -         | -          | -                                             | -                                          | 448          |
| Total Commercial and industrial loans  | 32,965                                                | 87,265     | 100,641    | 45,670     | 3,273     | 9,888      | 159,115                                       | 1,078                                      | 439,895      |
| Current period gross charge-offs       | -                                                     | 564        | 211        | -          | -         | -          | -                                             | -                                          | 775          |
| Real estate loans:                     |                                                       |            |            |            |           |            |                                               |                                            |              |
| Single-family residential              |                                                       |            |            |            |           |            |                                               |                                            |              |
| Payment performance                    |                                                       |            |            |            |           |            |                                               |                                            |              |
| Performing                             | 42,655                                                | 131,416    | 231,379    | 45,785     | 9,584     | 16,778     | -                                             | -                                          | 477,597      |
| Nonperforming                          | -                                                     | -          | -          | -          | -         | 627        | -                                             | -                                          | 627          |
| Total Single-family residential loans  | 42,655                                                | 131,416    | 231,379    | 45,785     | 9,584     | 17,405     | -                                             | -                                          | 478,224      |
| Multi-family residential               |                                                       |            |            |            |           |            |                                               |                                            |              |
| Pass                                   | 24,839                                                | 8,776      | 53,815     | 7,311      | 15,772    | 20,265     | -                                             | -                                          | 130,778      |
| Total Multi-family residential loans   | 24,839                                                | 8,776      | 53,815     | 7,311      | 15,772    | 20,265     | -                                             | -                                          | 130,778      |
| Commercial:                            |                                                       |            |            |            |           |            |                                               |                                            |              |
| Non-owner occupied                     |                                                       |            |            |            |           |            |                                               |                                            |              |
| Pass                                   | 57,092                                                | 27,068     | 61,990     | 15,085     | 20,101    | 45,725     | 982                                           | -                                          | 228,043      |
| Special Mention                        | -                                                     | -          | -          | -          | 505       | -          | -                                             | -                                          | 505          |
| Total Non-owner occupied loans         | 57,092                                                | 27,068     | 61,990     | 15,085     | 20,606    | 45,725     | 982                                           | -                                          | 228,548      |
| Owner occupied                         |                                                       |            |            |            |           |            |                                               |                                            |              |
| Pass                                   | 20,353                                                | 55,169     | 50,210     | 19,775     | 18,751    | 18,768     | 68                                            | -                                          | 183,094      |
| Special Mention                        | -                                                     | -          | -          | -          | 679       | -          | -                                             | -                                          | 679          |
| Total Owner occupied loans             | 20,353                                                | 55,169     | 50,210     | 19,775     | 19,430    | 18,768     | 68                                            | -                                          | 183,773      |
| Land                                   |                                                       |            |            |            |           |            |                                               |                                            |              |
| Pass                                   | 7,932                                                 | 6,037      | 6,177      | -          | 149       | 410        | -                                             | -                                          | 20,705       |
| Total Land loans                       | 7,932                                                 | 6,037      | 6,177      | -          | 149       | 410        | -                                             | -                                          | 20,705       |
| Construction                           |                                                       |            |            |            |           |            |                                               |                                            |              |
| Pass                                   | 31,739                                                | 78,602     | 61,435     | 4,174      | -         | -          | 14,772                                        | -                                          | 190,722      |
| Total Construction loans               | 31,739                                                | 78,602     | 61,435     | 4,174      | -         | -          | 14,772                                        | -                                          | 190,722      |
| Total Real Estate loans                | 184,610                                               | 307,068    | 465,006    | 92,130     | 65,541    | 102,573    | 15,822                                        | -                                          | 1,232,750    |
| Consumer:                              |                                                       |            |            |            |           |            |                                               |                                            |              |
| Home equity lines of credit:           |                                                       |            |            |            |           |            |                                               |                                            |              |
| Payment performance                    |                                                       |            |            |            |           |            |                                               |                                            |              |
| Performing                             | -                                                     | -          | -          | -          | -         | -          | 33,510                                        | 2,433                                      | 35,943       |
| Nonperforming                          | -                                                     | -          | -          | -          | -         | -          | -                                             | 17                                         | 17           |
| Total Home equity lines of credit      | -                                                     | -          | -          | -          | -         | -          | 33,510                                        | 2,450                                      | 35,960       |
| Other                                  |                                                       |            |            |            |           |            |                                               |                                            |              |
| Payment performance                    |                                                       |            |            |            |           |            |                                               |                                            |              |
| Performing                             | -                                                     | -          | -          | 12         | -         | 216        | 2,135                                         | -                                          | 2,363        |
| Nonperforming                          | -                                                     | -          | -          | -          | -         | -          | -                                             | 30                                         | 30           |
| Total Other consumer loans             | -                                                     | -          | -          | 12         | -         | 216        | 2,135                                         | 30                                         | 2,393        |
| Current period gross charge-offs       | -                                                     | -          | -          | -          | -         | 3          | -                                             | -                                          | 3            |
| Total loans                            | \$ 217,575                                            | \$ 394,333 | \$ 565,647 | \$ 137,812 | \$ 68,814 | \$ 112,677 | \$ 210,582                                    | \$ 3,558                                   | \$ 1,710,998 |
| Total current period gross charge-offs | \$ -                                                  | \$ 564     | \$ 211     | \$ -       | \$ -      | \$ 3       | \$ -                                          | \$ -                                       | \$ 778       |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 4 – LOANS AND LEASES (continued)

The recorded investment in loans and leases by risk category and by class of loans as of December 31, 2022 and based on the most recent analysis performed follows.

|                              | Not Rated         | Pass                | Special<br>Mention | Substandard   | Doubtful     | Total               |
|------------------------------|-------------------|---------------------|--------------------|---------------|--------------|---------------------|
| Commercial                   | \$ -              | \$ 422,673          | \$ 4,651           | \$ 19         | \$ 80        | \$ 427,423          |
| Real estate:                 |                   |                     |                    |               |              |                     |
| Single-family residential    | 451,939           | 12,477              | -                  | 641           | -            | 465,057             |
| Multi-family residential     | -                 | 104,148             | -                  | -             | -            | 104,148             |
| Commercial:                  |                   |                     |                    |               |              |                     |
| Non-owner occupied           | -                 | 168,731             | 955                | -             | -            | 169,686             |
| Owner occupied               | -                 | 171,998             | 700                | -             | -            | 172,698             |
| Land                         | -                 | 32,708              | -                  | -             | -            | 32,708              |
| Construction                 | 3,084             | 180,520             | 518                | -             | -            | 184,122             |
| Consumer:                    |                   |                     |                    |               |              |                     |
| Home equity lines of credit: |                   |                     |                    |               |              |                     |
| Originated for portfolio     | 30,730            | -                   | -                  | 18            | -            | 30,748              |
| Purchased for portfolio      | -                 | -                   | -                  | -             | -            | -                   |
| Other                        | 1,724             | -                   | -                  | 3             | -            | 1,727               |
|                              | <u>\$ 487,477</u> | <u>\$ 1,093,255</u> | <u>\$ 6,824</u>    | <u>\$ 681</u> | <u>\$ 80</u> | <u>\$ 1,588,317</u> |

## Direct Financing Leases:

The following lists the components of the net investment in direct financing leases:

|                                             | December 31, 2023 | December 31, 2022 |
|---------------------------------------------|-------------------|-------------------|
| Total minimum lease payments to be received | \$ 14,343         | \$ 22,533         |
| Less: unearned income                       | (863)             | (1,798)           |
| Plus: indirect initial costs                | 17                | 33                |
| Net investment in direct financing leases   | <u>\$ 13,497</u>  | <u>\$ 20,768</u>  |

The following summarizes the future minimum lease payments receivable in subsequent fiscal years:

|      |                  |
|------|------------------|
| 2024 | \$ 5,917         |
| 2025 | 5,097            |
| 2026 | 2,736            |
| 2027 | 543              |
| 2028 | 50               |
|      | <u>\$ 14,343</u> |

## NOTE 5 – FORECLOSED ASSETS

There were no foreclosed assets at December 31, 2023 and December 31, 2022.

There was no activity in the valuation allowance account or any write-downs during the years ended December 31, 2023 and 2022.

There were no expenses related to foreclosed assets during the years ended December 31, 2023, 2022 and 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 6 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of asset and liability:

Securities available for sale: The fair value of securities available for sale is determined using pricing models that vary based on asset class and include available trade, bid and other market information or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Derivatives: The fair value of derivatives, which includes interest rate lock commitments and interest rate swaps, is based on valuation models using observable market data as of the measurement date (Level 2).

TBA mortgage – back securities: To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into either a forward sales contract to sell loans to investors when using best efforts or a trade of “to be announced (TBA)” mortgage-backed securities for mandatory delivery. The forward sales contracts lock in a price for the sale of loans with similar characteristics to the specific rate lock commitments based on a valuation model using observable market data for pricing commitments (Level 2).

Impaired loans: The fair value of impaired loans with specific allocations of the ACL-Loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by a third-party appraisal management company approved by the Board of Directors annually. Once received, the loan officer or a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals are updated as needed based on facts and circumstances associated with the individual properties. Real estate appraisals typically incorporate measures such as recent sales prices for comparable properties. Appraisers may make adjustments to the sales prices of the comparable properties as deemed appropriate based on the age, condition or general characteristics of the subject property. Management applies an additional discount to real estate appraised values, typically to reflect changes in market conditions since the date of the appraisal and to cover disposition costs (including selling expenses) based on the intended disposition method of the property. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Loans held for sale: Loans held for sale are carried at fair value, as determined by outstanding commitments from third party investors (Level 2).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 6 – FAIR VALUE (continued)

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

|                                                            | Fair Value Measurements at<br>December 31, 2023 Using<br>Significant Other Observable Inputs<br>(Level 2) |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <b>Financial Assets:</b>                                   |                                                                                                           |
| Securities available for sale:                             |                                                                                                           |
| Corporate debt                                             | \$ 7,100                                                                                                  |
| Issued by U.S. government-sponsored entities and agencies: |                                                                                                           |
| U.S. Treasury                                              | 988                                                                                                       |
| Mortgage-backed securities - residential                   | 4                                                                                                         |
| Total securities available for sale                        | \$ 8,092                                                                                                  |
| Loans held for sale                                        | \$ 1,849                                                                                                  |
| Derivative assets                                          | \$ 4,710                                                                                                  |
| <b>Financial Liabilities:</b>                              |                                                                                                           |
| Derivative liabilities                                     | \$ 4,710                                                                                                  |

|                                                            | Fair Value Measurements at<br>December 31, 2022 Using<br>Significant Other Observable Inputs<br>(Level 2) |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <b>Financial Assets:</b>                                   |                                                                                                           |
| Securities available for sale:                             |                                                                                                           |
| Corporate debt                                             | \$ 7,500                                                                                                  |
| Issued by U.S. government-sponsored entities and agencies: |                                                                                                           |
| U.S. Treasury                                              | 2,925                                                                                                     |
| Mortgage-backed securities - residential                   | 17                                                                                                        |
| Total securities available for sale                        | \$ 10,442                                                                                                 |
| Loans held for sale                                        | \$ 580                                                                                                    |
| Derivative assets                                          | \$ 4,233                                                                                                  |
| <b>Financial Liabilities:</b>                              |                                                                                                           |
| Derivative liabilities                                     | \$ 4,233                                                                                                  |

The Company had no assets or liabilities measured at fair value on a recurring basis that were measured using Level 1 or Level 3 inputs at December 31, 2023 or December 31, 2022. There were no transfers of assets or liabilities measured at fair value between levels during 2023 or 2022.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2023 are summarized below:

### Fair Value Measurements at December 31, 2023 Using Significant Unobservable Inputs (Level 3)

|                        |        |
|------------------------|--------|
| <b>Impaired loans:</b> |        |
| Commercial             | \$ 403 |

There was a total of \$564 in write downs on two impaired collateral-dependent loans during the year ended December 31, 2023. Impaired loans that are measured for impairment using the fair value of the collateral for collateral-dependent loans had a principal balance of \$448 with a valuation allowance of \$45 at December 31, 2023.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 6 – FAIR VALUE (continued)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2022 are summarized below:

### Fair Value Measurements at December 31, 2022 Using Significant Unobservable Inputs (Level 3)

|                            |          |
|----------------------------|----------|
| Impaired loans:            |          |
| Commercial                 | \$ 80    |
| Other assets held for sale | \$ 1,930 |

There was a \$27 write down of an impaired collateral-dependent loan during the year ended December 31, 2022. Impaired loans that are measured for impairment using the fair value of the collateral for collateral-dependent loans had a principal balance of \$80 with a valuation allowance of \$0 at December 31, 2022.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2023:

|                 | Fair Value | Valuation Technique(s)    | Unobservable Inputs                                                          | (Range) Weighted Average |
|-----------------|------------|---------------------------|------------------------------------------------------------------------------|--------------------------|
| Impaired loans: |            |                           |                                                                              |                          |
| Commercial      | \$ 403     | Comparable sales approach | Adjustment for differences between the stated value and net realizable value | 10.43%                   |

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2022:

|                            | Fair Value | Valuation Technique(s)            | Unobservable Inputs                                                          | (Range) Weighted Average |
|----------------------------|------------|-----------------------------------|------------------------------------------------------------------------------|--------------------------|
| Impaired loans:            |            |                                   |                                                                              |                          |
| Commercial                 | \$ 80      | Comparable sales approach         | Adjustment for differences between the stated value and net realizable value | 64.00%                   |
| Other assets held for sale | \$ 1,930   | Contract value less costs to sell | Sales commission                                                             | 4.00%                    |

## Financial Instruments Recorded Using Fair Value Option:

The Company has elected the fair value option for loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Loans originated as construction loans, that were subsequently transferred to held for sale, are carried at the lower of cost or market and are not included. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans were 90 days or more past due or on nonaccrual as of December 31, 2023 or December 31, 2022.

As of December 31, 2023 and December 31, 2022, the aggregate fair value, contractual balance and gain or loss on loans held for sale were as follows:

|                      | December 31, 2023 | December 31, 2022 |
|----------------------|-------------------|-------------------|
| Aggregate fair value | \$ 1,849          | \$ 580            |
| Contractual balance  | 1,849             | 580               |
| Gain                 | -                 | -                 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 6 – FAIR VALUE (continued)

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2023, 2022 and 2021 for loans held for sale were:

|                            | 2023         | 2022            | 2021              |
|----------------------------|--------------|-----------------|-------------------|
| Interest income            | \$ 30        | \$ 172          | \$ 5,572          |
| Interest expense           | -            | -               | -                 |
| Change in fair value       | -            | (356)           | (8,408)           |
| Total change in fair value | <u>\$ 30</u> | <u>\$ (184)</u> | <u>\$ (2,836)</u> |

The carrying amounts and estimated fair values of financial instruments at year-end 2023 were as follows:

### Fair Value Measurements at December 31, 2023 Using:

|                                                           | Carrying<br>Value | Level 1        | Level 2      | Level 3   | Total          |
|-----------------------------------------------------------|-------------------|----------------|--------------|-----------|----------------|
| <b>Financial assets</b>                                   |                   |                |              |           |                |
| Cash and cash equivalents                                 | \$ 261,595        | \$ 261,595     | \$ -         | \$ -      | \$ 261,595     |
| Interest-bearing deposits in other financial institutions | 100               | 100            | -            | -         | 100            |
| Securities available for sale                             | 8,092             | -              | 8,092        | -         | 8,092          |
| Equity securities                                         | 5,000             | -              | 5,000        | -         | 5,000          |
| Loans held for sale                                       | 1,849             | -              | 1,849        | -         | 1,849          |
| Loans and leases, net                                     | 1,694,133         | -              | -            | 1,670,885 | 1,670,885      |
| FHLB and FRB stock                                        | 8,482             | n/a            | n/a          | n/a       | n/a            |
| Accrued interest receivable                               | 9,210             | 171            | 125          | 8,914     | 9,210          |
| Derivative assets                                         | 4,710             | -              | 4,710        | -         | 4,710          |
| <b>Financial liabilities</b>                              |                   |                |              |           |                |
| Deposits                                                  | \$ (1,744,057)    | \$ (1,080,605) | \$ (659,492) | \$ -      | \$ (1,740,097) |
| FHLB advances and other debt                              | (109,995)         | -              | (108,294)    | -         | (108,294)      |
| Advances by borrowers for taxes and insurance             | (2,179)           | -              | -            | (2,179)   | (2,179)        |
| Subordinated debentures                                   | (14,961)          | -              | (17,345)     | -         | (17,345)       |
| Accrued interest payable                                  | (2,680)           | -              | (2,680)      | -         | (2,680)        |
| Derivative liabilities                                    | (4,710)           | -              | (4,710)      | -         | (4,710)        |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 6 – FAIR VALUE (continued)

The carrying amounts and estimated fair values of financial instruments at year-end 2022 were as follows:

### Fair Value Measurements at December 31, 2022 Using:

|                                                           | Carrying<br>Value | Level 1      | Level 2      | Level 3   | Total          |
|-----------------------------------------------------------|-------------------|--------------|--------------|-----------|----------------|
| <b>Financial assets</b>                                   |                   |              |              |           |                |
| Cash and cash equivalents                                 | \$ 151,787        | \$ 151,787   | \$ -         | \$ -      | \$ 151,787     |
| Interest-bearing deposits in other financial institutions | 100               | 100          | -            | -         | 100            |
| Securities available for sale                             | 10,442            | -            | 10,442       | -         | 10,442         |
| Equity securities                                         | 5,000             | -            | 5,000        | -         | 5,000          |
| Loans held for sale                                       | 580               | -            | 580          | -         | 580            |
| Loans and leases, net                                     | 1,572,255         | -            | -            | 1,542,796 | 1,542,796      |
| FHLB and FRB stock                                        | 7,942             | n/a          | n/a          | n/a       | n/a            |
| Accrued interest receivable                               | 8,067             | 70           | 176          | 7,821     | 8,067          |
| Other assets held for sale                                | 1,930             | -            | -            | 1,930     | 1,930          |
| Derivative assets                                         | 4,233             | -            | 4,233        | -         | 4,233          |
| <b>Financial liabilities</b>                              |                   |              |              |           |                |
| Deposits                                                  | \$ (1,527,922)    | \$ (969,797) | \$ (545,871) | \$ -      | \$ (1,515,668) |
| FHLB advances and other debt                              | (109,461)         | -            | (105,715)    | -         | (105,715)      |
| Advances by borrowers for taxes and insurance             | (3,513)           | -            | -            | (3,513)   | (3,513)        |
| Subordinated debentures                                   | (14,922)          | -            | (14,621)     | -         | (14,621)       |
| Accrued interest payable                                  | (840)             | -            | (840)        | -         | (840)          |
| Derivative liabilities                                    | (4,233)           | -            | (4,233)      | -         | (4,233)        |

The methods and assumptions used to estimate fair value are described below.

### Cash and Cash Equivalents and Interest-Bearing Deposits in Other Financial Institutions

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

### Equity Securities

Equity securities without a readily determinable fair value are held at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company performs a qualitative assessment for equity securities without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and fair value. This method results in a Level 3 classification.

### FHLB and FRB Stock

It is not practical to determine the fair value of FHLB and FRB stock due to restrictions placed on its transferability.

### Loans and Leases

Fair values of loans and leases, excluding loans held for sale, are estimated utilizing an exit pricing methodology as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. The discount rate for the discounted cash flow analyses includes a credit quality adjustment. Impaired loans are valued at the lower of cost or fair value as described previously.

### Other Assets Held for Sale

The carrying amount of other assets held for sale approximates fair value and is classified as Level 3.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 6 – FAIR VALUE (continued)

#### Deposits

The fair values disclosed for demand deposits (e.g., interest and noninterest bearing checking, passbook savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

#### FHLB Advances and Other Debt

The fair values of the Company's long-term FHLB and credit facility advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

#### Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 1, 2 or 3 classification, consistent with the asset or liability with which they are associated.

#### Advances by Borrowers for Taxes and Insurance

The carrying amount of advances by borrowers for taxes and insurance approximates fair value resulting in a Level 3 classification, consistent with the liability with which they are associated.

#### Off-Balance-Sheet Instruments

The fair value of off-balance-sheet items is not considered material.

### NOTE 7 – LOAN SERVICING

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at year-end were as follows:

|                                         | December 31, 2023 | December 31, 2022 |
|-----------------------------------------|-------------------|-------------------|
| Mortgage loans serviced for Freddie Mac | \$ 991            | \$ 1,163          |

Custodial escrow balances maintained in connection with serviced loans were \$33 and \$38 at year-end 2023 and 2022, respectively.

The mortgage servicing rights on these loans were immaterial at December 31, 2023 and 2022.

### NOTE 8- PREMISES AND EQUIPMENT AND OPERATING LEASES

Year-end premises and equipment were as follows:

|                                   | December 31, 2023 | December 31, 2022 |
|-----------------------------------|-------------------|-------------------|
| Land and land improvements        | \$ 248            | \$ 248            |
| Buildings                         | 2,444             | 2,295             |
| Furniture, fixtures and equipment | 2,905             | 3,321             |
|                                   | 5,597             | 5,864             |
| Less: accumulated depreciation    | (1,785)           | (2,086)           |
|                                   | \$ 3,812          | \$ 3,778          |

Depreciation expense for 2023, 2022 and 2021 totaled \$567, \$496, and \$435, respectively.

#### Operating Leases:

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 8- PREMISES AND EQUIPMENT AND OPERATING LEASES (continued)

The leases in which the Company is the lessee are comprised of real estate property for branches and offices and for equipment with terms extending through 2034. All of our leases are classified as operating leases, and therefore are required to be recognized on the consolidated balance sheets as a right-of-use (“ROU”) asset and a corresponding operating lease liability.

The calculated amounts of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company’s lease agreements often include one or more options to renew at the Company’s discretion which were considered, as applicable, in the calculation of the ROU assets and lease liabilities. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, the rate implicit in the lease is used whenever this rate is readily determinable. As this rate is not readily determinable in our operating leases, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. At December 31, 2023, the weighted-average remaining lease term for the Company’s operating leases was 8.9 years and the weighted-average discount rate was 7.21%.

The Company’s operating lease costs were \$687, \$568, and \$461 for the years ended December 31, 2023, 2022 and 2021, respectively. The variable lease costs totaled \$681, \$301, and \$292 for the years ended December 31, 2023, 2022 and 2021, respectively. As the Company elected not to separate lease and non-lease components for all classes of underlying assets and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities.

Future minimum operating lease payments as of December 31, 2023 are as follows:

|                                         |    |         |
|-----------------------------------------|----|---------|
| 2024                                    | \$ | 1,034   |
| 2025                                    |    | 820     |
| 2026                                    |    | 737     |
| 2027                                    |    | 687     |
| 2028                                    |    | 700     |
| Thereafter                              |    | 3,407   |
| Total future minimum rental commitments |    | 7,385   |
| Less - amounts representing interest    |    | (2,083) |
| Total operating lease liabilities       | \$ | 5,302   |

### NOTE 9 – DEPOSITS

Time deposits of \$100 or more were \$588,849 and \$483,719 at year-end 2023 and 2022, respectively. Time deposits of \$250 or more were \$370,419 and \$245,099 at year-end 2023 and 2022, respectively.

Scheduled maturities of time deposits for the next five years are as follows:

|            |    |         |
|------------|----|---------|
| 2024       | \$ | 567,215 |
| 2025       |    | 60,025  |
| 2026       |    | 28,811  |
| 2027       |    | 7,401   |
| Thereafter |    | -       |
| Total      | \$ | 663,452 |

Brokered deposits at year-end 2023 and 2022 totaled \$440,350 and \$291,827, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

**NOTE 10 –FHLB ADVANCES AND OTHER DEBT**

FHLB advances and other debt were as follows:

|                                  | Weighted<br>Average Rate | December 31, 2023 | December 31, 2022 |
|----------------------------------|--------------------------|-------------------|-------------------|
| <b>FHLB fixed rate advances</b>  |                          |                   |                   |
| Maturities:                      |                          |                   |                   |
| 2023                             | -                        | -                 | 3,500             |
| 2024                             | 1.46%                    | 18,500            | 18,500            |
| 2026                             | 1.45%                    | 16,000            | 16,000            |
| 2027                             | 3.88%                    | 12,500            | 12,500            |
| 2028                             | 1.69%                    | 17,000            | -                 |
| Thereafter                       | 3.94%                    | 12,500            | 29,500            |
| Total FHLB fixed rate advances   |                          | 76,500            | 80,000            |
| <b>Variable rate other debt:</b> |                          |                   |                   |
| Holding Company credit facility  | 3.85%                    | 33,495            | 29,461            |
| Total                            |                          | <u>\$ 109,995</u> | <u>\$ 109,461</u> |

Each FHLB advance is payable at its maturity date, with a prepayment penalty if repaid before maturity.

The FHLB advances were collateralized as follows:

|                                           | December 31, 2023 | December 31, 2022 |
|-------------------------------------------|-------------------|-------------------|
| Single-family mortgage loans              | \$ 305,283        | \$ 292,558        |
| Multi-family mortgage loans               | 63,024            | 43,021            |
| Commercial real estate loans (1-4 family) | 17,757            | 12,938            |
| Home equity lines of credit               | 4,057             | 4,007             |
| Securities                                | 497               | 1,004             |
| Cash                                      | 3,300             | 3,300             |
| Total                                     | <u>\$ 393,918</u> | <u>\$ 356,828</u> |

Based on the collateral pledged to the FHLB, CFBank was eligible to borrow up to a total of \$260,154 from the FHLB at December 31, 2023 inclusive of the amount outstanding.

Payments due on FHLB advances over the next five years are as follows:

|      | December 31, 2023 |
|------|-------------------|
| 2024 | \$ 18,500         |
| 2025 | -                 |
| 2026 | 16,000            |
| 2027 | 12,500            |
| 2028 | 17,000            |
|      | <u>\$ 64,000</u>  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 10 –FHLB ADVANCES AND OTHER DEBT (continued)

The Holding Company has a \$35,000 credit facility with a third-party bank. The credit facility is revolving until May 21, 2024, at which time any then-outstanding balance will be converted to a 10-year term note on a graduated 10-year amortization. Borrowings on the credit facility bear interest at a fixed rate of 3.85% until May 21, 2026, and the interest rate then converts to a floating rate equal to PRIME with a floor of 3.25%. The purpose of the credit facility is to provide an additional source of liquidity for the Holding Company and to provide funds for the Holding Company to downstream as additional capital to CFBank to support growth. As of December 31, 2023, the Company had an outstanding balance, net of unamortized debt issuance costs, of \$33,495 the credit facility. At December 31, 2022, the Company had an outstanding balance of \$29,461 on the credit facility.

At December 31, 2023, CFBank had additional availability in unused lines of credit at two commercial banks in amounts of \$50,000 and \$15,000. There were no outstanding borrowings on either line at December 31, 2023 and December 31, 2022. Interest on any principal amounts outstanding from time to time under these lines accrues daily at a variable rate based on the commercial bank's cost of funds and current market returns.

There were no outstanding borrowings with the FRB at December 31, 2023 and December 31, 2022.

Assets pledged as collateral with the FRB were as follows:

|                              | 2023              | 2022              |
|------------------------------|-------------------|-------------------|
| Commercial loans             | \$ 67,295         | \$ 62,909         |
| Commercial real estate loans | 113,739           | 84,836            |
|                              | <u>\$ 181,034</u> | <u>\$ 147,745</u> |

Based on the collateral pledged, CFBank was eligible to borrow up to \$136,240 from the FRB at year-end 2023.

### NOTE 11 – SUBORDINATED DEBENTURES

#### 2003 Subordinated Debentures:

In December 2003, Central Federal Capital Trust I, a trust formed by the Holding Company, closed a pooled private offering of 5,000 trust preferred securities with a liquidation amount of \$1 per security. The Holding Company issued \$5,155 of subordinated debentures to the trust in exchange for ownership of all of the common stock of the trust and the proceeds of the preferred securities sold by the trust. The Holding Company is not considered the primary beneficiary of this trust (variable interest entity); therefore, the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Holding Company's investment in the common stock of the trust was \$155 and is included in other assets.

The Holding Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$1, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on December 30, 2033. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. There are no required principal payments on the subordinated debentures over the next five years. The Holding Company has the option to defer interest payments on the subordinated debentures for a period not to exceed five consecutive years.

Prior to July 1, 2023, the subordinated debentures had a variable rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85%. At December 31, 2022 the rate was 7.58%. Effective July 1, 2023, the rate of interest on the subordinated debentures began to reset quarterly to the three-month Secured Overnight Financing Rate (SOFR) plus 3.112%, which was 8.44% at December 31, 2023.

#### 2018 Fixed-to-floating rate subordinated notes:

In December 2018, the Holding Company entered into subordinated note purchase agreements with certain qualified institutional buyers and completed a private placement of \$10 million of fixed-to-floating rate subordinated notes with a maturity date of December 30, 2028 pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D promulgated thereunder. After payment of approximately \$388 of debt issuance costs, the Holding Company's net proceeds were approximately \$9,612

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 11 – SUBORDINATED DEBENTURES (continued)

The subordinated notes initially bore interest at 7.00%, from and including December 20, 2018, to but excluding December 30, 2023, payable semi-annually in arrears on June 30 and December 30 of each year. From and including December 30, 2023, to but excluding December 30, 2028 or the earlier redemption of the notes, the interest rate resets quarterly to an interest rate equal to the then current three-month SOFR (but not less than zero) plus 4.402%, payable quarterly in arrears on March 30, June 30, September 30, and December 30 of each year. The Holding Company may, at its option, redeem the notes beginning on December 30, 2023 and on any scheduled interest payment date thereafter. At December 31, 2023, the balance of the subordinated notes, net of unamortized debt issuance costs, was \$9,806.

### NOTE 12 – BENEFIT PLANS

#### Multi-employer pension plan:

CFBank participates in the Pentegra Defined Benefit Plan for Financial Institutions (the “Pentegra DB Plan”), a multi-employer contributory trustee pension plan. The retirement benefits to be provided by the plan were frozen as of June 30, 2003 and future employee participation in the plan was stopped. The plan was maintained for all eligible employees and the benefits were funded as accrued. The cost of funding was charged directly to operations.

The funding shortfall (surplus) of the Pentegra DB Plan at June 30, 2023 was \$180 and at June 30, 2022 was \$102. CFBank’s contributions for the plan years ending June 30, 2023, June 30, 2022, and June 30, 2021 totaled \$24, \$19, and \$22, respectively. Contributions to the plan may vary from period to period due to the change in the plan's unfunded liability. The unfunded liability is primarily related to the change in plan assets and the change in plan liability from one year to the next. The change in plan assets is based on contributions deposited, benefits paid and the actual rate of return earned on plan assets. The change in plan liability is based on demographic changes and changes in the interest rates used to determine plan liability. In the event the actual rate of return earned on plan assets declines, the value of the plan assets will decline. In the event the interest rates used to determine plan liability decrease, plan liability will increase. The combined effect of each change determines the change in the unfunded liability and the change in the employer contributions.

The Pentegra DB Plan is a tax-qualified defined-benefit pension plan. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

Funded status (market value of plan assets divided by funding target) based on valuation reports as of July 1, 2023 and 2022 was 81.12% and 90.10%, respectively.

Total contributions made to the Pentegra DB Plan, as reported on Form 5500 of the Pentegra DB Plan, totaled \$142,405 and \$248,563 for the plan years ended June 30, 2022 and June 30, 2021, respectively. CFBank’s contributions to the Pentegra DB Plan were not more than 5% of the total contributions to the Pentegra DB Plan.

#### 401(k) Plan:

The Company sponsors a 401(k) plan that allows employee contributions up to the maximum amount allowable under federal tax regulations, which are currently matched in an amount equal to 50% of the first 8% of the compensation contributed. Total expense for matching contributions for 2023, 2022 and 2021 was \$92, \$301 and \$343, respectively.

#### Salary Continuation Agreement:

In 2004, CFBank entered into a nonqualified salary continuation agreement with its former Chairman Emeritus. Benefits provided under the plan are unfunded, and payments are made by CFBank. Under the plan, CFBank pays him, or his beneficiary, a benefit of \$25 annually for 20 years, beginning 6 months after his retirement date, which was February 28, 2008. The expense related to this plan totaled \$5, \$6, and \$7 in 2023, 2022 and 2021, respectively. The accrual is included in accrued interest payable and other liabilities in the consolidated balance sheets and totaled \$95 at year-end 2023 and \$115 at year-end 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 12 – BENEFIT PLANS (continued)

#### Life Insurance Benefits:

CFBank has entered into agreements with certain employees, former employees and directors to provide life insurance benefits which are funded through life insurance policies purchased and owned by CFBank. The expense related to these benefits totaled (\$12), (\$3) and \$13 in 2023, 2022 and 2021, respectively. The accrual for CFBank's obligation under these agreements is included in accrued interest payable and other liabilities in the consolidated balance sheets and totaled \$126 at year-end 2023 and \$139 at year-end 2022.

#### Deferred Cash Incentive Agreements:

CFBank has entered into agreements with certain officers to provide deferred cash compensation as an incentive and reward for the success of CFBank. The expense related to these benefits totaled \$129, \$262, and \$118 in 2023, 2022 and 2021, respectively. The accrual for CFBank's obligation under these agreements is included in accrued interest payable and other liabilities in the consolidated balance sheets and totaled \$509 at year-end 2023 and \$380 at year-end 2022.

### NOTE 13 – INCOME TAXES

Income tax expense was as follows:

|                                 | December 31, 2023 | December 31, 2022 | December 31, 2021 |
|---------------------------------|-------------------|-------------------|-------------------|
| Current federal                 | \$ 3,592          | \$ 4,213          | \$ 3,592          |
| Deferred federal <sup>(1)</sup> | 456               | 215               | 773               |
| Total                           | <u>\$ 4,048</u>   | <u>\$ 4,428</u>   | <u>\$ 4,365</u>   |

<sup>(1)</sup> Includes tax benefit of operating loss carryforwards of \$34, \$34, and \$34 for the years ended December 31, 2023, 2022 and 2021, respectively.

Effective tax rates differ from the federal statutory rate of 21% for 2023, 2022 and 2021 applied to income before income taxes due to the following:

|                                                         | December 31,<br>2023 | December 31,<br>2022 | December 31,<br>2021 |
|---------------------------------------------------------|----------------------|----------------------|----------------------|
| Federal Statutory rate times financial statement income | \$ 4,407             | \$ 4,744             | \$ 4,792             |
| Effect of:                                              |                      |                      |                      |
| Stock compensation                                      | (7)                  | (50)                 | (50)                 |
| Bank owned life insurance income                        | (131)                | (126)                | (112)                |
| Gain on redemption of life insurance policies           | -                    | -                    | (80)                 |
| Tax credits, net of amortization                        | (194)                | (111)                | (154)                |
| Other                                                   | (27)                 | (29)                 | (31)                 |
|                                                         | <u>\$ 4,048</u>      | <u>\$ 4,428</u>      | <u>\$ 4,365</u>      |
| Effective tax rate                                      | 19%                  | 20%                  | 19%                  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 13 – INCOME TAXES (continued)

Year-end deferred tax assets and liabilities were due to the following:

|                                     | 2023            | 2022            |
|-------------------------------------|-----------------|-----------------|
| Deferred tax assets:                |                 |                 |
| Allowance for credit losses         | \$ 3,819        | \$ 3,458        |
| Compensation related items          | 599             | 573             |
| Deferred loan fees                  | -               | -               |
| Nonaccrual interest                 | 13              | 9               |
| Net operating loss carry forward    | 295             | 330             |
| Operating lease liabilities         | 1,142           | 302             |
| Unrealized mark-to-market loss      | 609             | 541             |
|                                     | 6,477           | 5,213           |
| Deferred tax liabilities:           |                 |                 |
| FHLB stock dividend                 | 226             | 226             |
| Depreciation                        | 469             | 268             |
| Operating lease right-of-use assets | 1,124           | 285             |
| Deferred loan costs                 | 9               | 34              |
| Limited partnership interests       | 642             | -               |
| Prepaid expenses                    | 65              | 70              |
|                                     | 2,535           | 883             |
| Net deferred tax asset              | <u>\$ 3,942</u> | <u>\$ 4,330</u> |

At December 31, 2023, the Company had a deferred tax asset recorded of approximately \$3,942. At December 31, 2022, the Company had a deferred tax asset recorded of approximately \$4,330. These balances are included in the accrued interest receivable and other assets on the consolidated balance sheets. At December 31, 2023 and December 31, 2022, the Company had no unrecognized tax benefits recorded. The Company is subject to U.S. federal income tax and is no longer subject to federal examination for years prior to 2020.

Our deferred tax assets are composed of U.S. net operating losses (“NOLs”), and other temporary book to tax differences. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income and projected future reversals of deferred tax items. Based on these criteria, the Company determined as of December 31, 2023 that no valuation allowance was required against the net deferred tax asset.

In 2012, a recapitalization program through the sale of \$22,500 in common stock improved the capital levels of CFBank and provided working capital for the Holding Company. The result of the change in stock ownership associated with the stock offering, however, was that the Company incurred an ownership change within the guidelines of Section 382 of the Internal Revenue Code of 1986. At year-end 2023, the Company had net operating loss carryforwards of \$21,927, which expire at various dates from 2024 to 2032. As a result of the ownership change, the Company's ability to utilize carryforwards that arose before the 2012 stock offering closed is limited to \$163 per year. Due to this limitation, management determined it was more likely than not that \$20,520 of net operating loss carryforwards would expire unutilized. As required by accounting standards, the Company reduced the carrying value of deferred tax assets, and the corresponding valuation allowance, by the \$6,977 tax effect of this lost realizability.

Federal income tax laws provided additional deductions, totaling \$2,250, for thrift bad debt reserves established before 1988. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would have totaled \$473 at year-end 2023. However, if CFBank were wholly or partially liquidated or otherwise ceases to be a bank, or if tax laws were to change, this amount would have to be recaptured and a tax liability recorded. Additionally, any distributions in excess of CFBank's current or accumulated earnings and profits would reduce amounts allocated to its bad debt reserve and create a tax liability for CFBank.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 14 – RELATED-PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates during 2023 and 2022 were as follows:

|                   | Year ended December 31, |                 |
|-------------------|-------------------------|-----------------|
|                   | 2023                    | 2022            |
| Beginning balance | \$ 8,298                | \$ 10,137       |
| New loans         | 15,604                  | 1,189           |
| Repayments        | (514)                   | (3,028)         |
| Ending balance    | <u>\$ 23,388</u>        | <u>\$ 8,298</u> |

All loans to related parties were made by CFBank in the ordinary course of business under terms equivalent to those prevailing in the market for arm's length transactions at the time of origination.

Deposits from principal officers, directors, and their affiliates totaled \$3,922 and \$4,214 at year-end 2023 and 2022, respectively.

### NOTE 15 – STOCK-BASED COMPENSATION

The Company has two stock-based compensation plans (collectively, the “Plans”), as described below, under which awards are outstanding or may be granted in the future. Total compensation cost that has been charged against income for those Plans totaled \$1,172, \$899 and \$707 for 2023, 2022 and 2021, respectively. The total income tax benefit was \$246, \$189 and \$148 for 2023, 2022 and 2021, respectively.

Both Plans are stockholder-approved and authorize stock option grants and restricted stock awards to be made to directors, officers and employees. The 2009 Equity Compensation Plan (the “2009 Plan”), which was approved by stockholders on May 21, 2009, replaced the Company’s 2003 Equity Compensation Plan (the “2003 Plan”) and provided for 36,363 shares, plus any remaining shares available to grant or that are later forfeited or expire under the 2003 Plan, to be made available to be issued as stock option grants, stock appreciation rights or restricted stock awards. On May 16, 2013, the Company’s stockholders approved the First Amendment to the 2009 Plan to increase the number of shares of common stock reserved for stock option grants and restricted stock awards thereunder to 272,727. The 2009 Plan terminated in accordance with its terms on March 19, 2019 and, as a result, no further awards may be granted under the 2009 Plan.

The 2019 Equity Incentive Plan (the “2019 Plan”), which was approved by stockholders on May 29, 2019, authorizes up to 300,000 shares (plus any shares that are subject to grants under the 2009 Plan and that are later forfeited or expire), to be awarded pursuant to stock options, stock appreciation rights, restricted stock or restricted stock units. There were 76,330 shares remaining available for awards of stock option grants, stock appreciation rights, restricted stock awards or restricted stock units under the 2019 Plan at December 31, 2023.

#### Stock Options:

The Plans permit the grant of stock options to directors, officers and employees of the Holding Company and CFBank. Option awards are granted with an exercise price equal to the market price of the Company’s common stock on the date of grant, generally have vesting periods ranging from one year to three years, and are exercisable for ten years from the date of grant. Unvested stock options immediately vest upon a change of control.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company’s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 15 – STOCK-BASED COMPENSATION (continued)

A summary of stock option activity in the Plans for 2023 follows:

|                                  | Shares   | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term<br>(Years) | Intrinsic Value |
|----------------------------------|----------|------------------------------------|--------------------------------------------------------------|-----------------|
| Outstanding at beginning of year | 11,089   | \$ 7.63                            |                                                              |                 |
| Exercised                        | (11,089) | 7.63                               |                                                              |                 |
| Expired                          | -        | -                                  |                                                              |                 |
| Cancelled or forfeited           | -        | -                                  |                                                              |                 |
| Outstanding at end of period     | -        | \$ -                               | -                                                            | \$ -            |
| Exercisable at end of period     | -        | \$ -                               | -                                                            | \$ -            |

There were no stock options granted during the years ended December 31, 2023 and December 31, 2022. There were 11,089 options exercised during the year ended December 31, 2023 and 52,358 options exercised during the year ended December 31, 2022. There were no options canceled, forfeited or expired during the year ended December 31, 2023. Stock options to purchase a total of 545 common shares were cancelled, forfeited or expired during the year ended December 31, 2022. Expense associated with unvested forfeited shares is reversed. As of December 31, 2023, there were no outstanding stock options. As of December 31, 2022, all stock options granted under the Plans were vested.

#### Restricted Stock Awards:

The Plans also permit the grant of restricted stock awards to directors, officers and employees. Compensation is recognized over the vesting period of the awards based on the fair value of the stock at grant date. The fair value of the stock is determined using the closing share price on the date of grant and shares generally have vesting periods of one to three years. There were 59,784 shares of restricted stock granted in 2023 and 69,648 shares of restricted stock granted in 2022.

A summary of changes in the Company's nonvested shares of restricted stock for the year follows:

| <u>Nonvested Shares</u>        | Shares   | Weighted Average Grant-<br>Date Fair Value |
|--------------------------------|----------|--------------------------------------------|
| Nonvested at January 1, 2023   | 112,413  | \$ 19.35                                   |
| Granted                        | 59,784   | 20.15                                      |
| Vested                         | (46,967) | 18.60                                      |
| Forfeited                      | (6,204)  | 20.32                                      |
| Nonvested at December 31, 2023 | 119,026  | \$ 19.99                                   |

As of December 31, 2023 and 2022, the unrecognized compensation cost related to nonvested shares granted under the Plans was \$1,381 and \$1,475, respectively.

There were 46,967 shares restricted stock that vested during the year ended December 31, 2023 and 40,433 shares of restricted stock that vested during the year ended December 31, 2022. There were 6,204 and 6,697 shares of restricted stock forfeited during the years ended December 31, 2023 and December 31, 2022, respectively.

### NOTE 16 – REGULATORY CAPITAL MATTERS

CFBank is subject to regulatory capital requirements administered by federal banking agencies. Prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications for banking organizations: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 16 – REGULATORY CAPITAL MATTERS (continued)

If a banking organization is classified as adequately capitalized, regulatory approval is required to accept brokered deposits. If a banking organization is classified as undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

In July 2013, the Holding Company’s primary federal regulator, the Board of Governors of the Federal Reserve System (the “Federal Reserve”), published final rules (the “Basel III Capital Rules”) establishing a comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. In order to avoid limitations on capital distributions, such as dividend payments and certain bonus payments to executive officers, the Basel III Capital Rules require insured financial institutions to hold a capital conservation buffer of common equity tier 1 capital above the minimum risk-based capital requirements. The capital conservation buffer consists of an additional amount of common equity equal to 2.5% of risk-weighted assets. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios of Common Equity Tier 1 capital, Tier 1 capital and Total capital, as defined in the regulations, to risk-weighted assets, and of Tier 1 capital to adjusted quarterly average assets (“Leverage Ratio”).

The Basel III Capital Rules require CFBank to maintain: 1) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5%, plus a 2.5% “capital conservation buffer” (resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 7.0%); 2) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%); 3) a minimum ratio of Total capital to risk-weighted assets of 8.0%, plus the capital conservation buffer (resulting in a minimum Total capital ratio of 10.5%); and 4) a minimum Leverage Ratio of 4.0%.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Failure to maintain the minimum Common Equity Tier 1 capital ratio plus the capital conservation buffer will result in potential restrictions on a banking institution’s ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees.

The following tables present actual and required capital ratios as of December 31, 2023 and December 31, 2022 for CFBank under the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

|                                                                 | Actual     |        | Minimum Capital<br>Required-Basel III |        | To Be Well Capitalized<br>Under Applicable<br>Regulatory Capital<br>Standards |        |
|-----------------------------------------------------------------|------------|--------|---------------------------------------|--------|-------------------------------------------------------------------------------|--------|
|                                                                 | Amount     | Ratio  | Amount                                | Ratio  | Amount                                                                        | Ratio  |
| <b>December 31, 2023</b>                                        |            |        |                                       |        |                                                                               |        |
| Total Capital to risk weighted assets                           | \$ 215,164 | 13.30% | \$ 169,909                            | 10.50% | \$ 161,818                                                                    | 10.00% |
| Tier 1 (Core) Capital to risk weighted assets                   | 196,977    | 12.17% | 137,546                               | 8.50%  | 129,455                                                                       | 8.00%  |
| Common equity tier 1 capital to risk-weighted assets            | 196,977    | 12.17% | 113,273                               | 7.00%  | 105,182                                                                       | 6.50%  |
| Tier 1 (Core) Capital to adjusted total assets (Leverage ratio) | 196,977    | 9.76%  | 80,727                                | 4.00%  | 100,908                                                                       | 5.00%  |

|                                                                 | Actual     |        | Minimum Capital<br>Required-Basel III |        | To Be Well Capitalized<br>Under Applicable<br>Regulatory Capital<br>Standards |        |
|-----------------------------------------------------------------|------------|--------|---------------------------------------|--------|-------------------------------------------------------------------------------|--------|
|                                                                 | Amount     | Ratio  | Amount                                | Ratio  | Amount                                                                        | Ratio  |
| <b>December 31, 2022</b>                                        |            |        |                                       |        |                                                                               |        |
| Total Capital to risk weighted assets                           | \$ 193,294 | 12.74% | \$ 159,364                            | 10.50% | \$ 151,775                                                                    | 10.00% |
| Tier 1 (Core) Capital to risk weighted assets                   | 176,828    | 11.65% | 129,009                               | 8.50%  | 121,420                                                                       | 8.00%  |
| Common equity tier 1 capital to risk-weighted assets            | 176,828    | 11.65% | 106,243                               | 7.00%  | 98,654                                                                        | 6.50%  |
| Tier 1 (Core) Capital to adjusted total assets (Leverage ratio) | 176,828    | 9.89%  | 71,502                                | 4.00%  | 89,377                                                                        | 5.00%  |

CFBank converted from a mutual to a stock institution in 1998, and a “liquidation account” was established with an initial balance of \$14,300, which was the net worth reported in the conversion prospectus. The liquidation account represents a calculated amount for the purposes described below, and it does not represent actual funds included in the consolidated financial statements of the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 16 – REGULATORY CAPITAL MATTERS (continued)

Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would be entitled to a priority distribution from this account if CFBank liquidated and its assets exceeded its liabilities. Dividends may not reduce CFBank’s stockholder’s equity below the required liquidation account balance.

#### Dividend Restrictions:

Banking regulations require us to maintain certain capital levels and may limit the dividends paid by CFBank to the Holding Company or by the Holding Company to stockholders. The ability of the Holding Company to pay dividends on its stock is dependent upon the amount of cash and liquidity available at the Holding Company level, as well as the receipt of dividends and other distributions from CFBank to the extent necessary to fund such dividends. The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. The Holding Company also is subject to various legal and regulatory policies and guidelines impacting the Holding Company’s ability to pay dividends on its stock. In addition, the Holding Company’s ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company’s trust preferred securities. Finally, under the terms of the Holding Company’s fixed-to-floating rate subordinated debt, the Holding Company’s ability to pay dividends on its stock is conditioned upon the Holding Company continuing to make required principal and interest payments, and not incurring an event of default, with respect to the subordinated debt.

Additionally, CFBank does not intend to make distributions to the Holding Company that would result in a recapture of any portion of its thrift bad debt reserve as discussed in Note 13-Income Taxes.

### NOTE 17 – DERIVATIVE INSTRUMENTS

#### Interest-rate swaps:

The Bank enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and offsetting terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Bank receives a floating rate. These back-to-back loan swaps are derivative financial instruments and are reported at fair value in “accrued interest receivable and other assets” and “accrued interest payable and other liabilities” in the Consolidated Balance Sheets. Changes in the fair value of loan swaps are recorded in other noninterest income and sum to zero because of the offsetting terms of swaps with borrowers and swaps with dealer counterparties.

CFBank utilizes interest-rate swaps as part of its asset liability management strategy to help manage its interest rate risk position and does not use derivatives for trading purposes. The notional amount of the interest-rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest-rate swap agreements. CFBank was party to interest-rate swaps with a combined notional amount of \$81,858, \$42,177 and \$44,887 at December 31, 2023, 2022 and 2021, respectively.

The counterparty to CFBank’s interest-rate swaps is exposed to credit risk whenever the interest-rate swaps are in a liability position. At December 31, 2023, CFBank had \$3,394 in cash pledged as collateral for these derivatives. Should the liability increase beyond the collateral value, CFBank may be required to pledge additional collateral.

Additionally, CFBank’s interest-rate swap instruments contain provisions that require CFBank to remain well capitalized under regulatory capital standards and to comply with certain other regulatory requirements. The interest-rate swaps may be called by the counterparty if CFBank fails to maintain well-capitalized status under regulatory capital standards or becomes subject to certain adverse regulatory events such as a regulatory cease and desist order. As of December 31, 2023, CFBank was well-capitalized under regulatory capital standards and was not subject to any adverse regulatory events specified in CFBank’s interest-rate swap instruments.

Summary information about the derivative instruments is as follows:

|                                                      | 2023       | 2022       | 2021      |
|------------------------------------------------------|------------|------------|-----------|
| Notional amount                                      | \$ 81,858  | \$ 42,177  | \$ 44,887 |
| Weighted average pay rate on interest-rate swaps     | 5.36%      | 4.34%      | 4.21%     |
| Weighted average receive rate on interest-rate swaps | 7.81%      | 6.21%      | 3.00%     |
| Weighted average maturity (years)                    | 8.2        | 7.7        | 6.9       |
| Fair value of derivative asset                       | \$ 4,710   | \$ 4,233   | \$ 538    |
| Fair value of derivative liability                   | \$ (4,710) | \$ (4,233) | \$ (538)  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 17 – DERIVATIVE INSTRUMENTS (continued)

### Mortgage banking derivatives:

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market are considered derivatives. These mortgage banking derivatives are not designated in hedge relationships. Early in 2021, we strategically scaled down and repositioned our Residential Mortgage Business as a result of the shifts in the residential mortgage industry and, during the second quarter of 2022, we exited the direct-to-consumer mortgage business in favor of lending in our regional markets. The Company had \$5,345, \$3,940 and \$50,312 of interest rate lock commitments related to residential mortgage loans at December 31, 2023, 2022, and 2021, respectively. The fair value of these mortgage banking derivatives was reflected by a derivative asset was immaterial at December 31, 2023 and 2022 and \$555 at December 31, 2021, which was included in other assets in the consolidated balance sheet. Fair values were estimated based on anticipated gains on the sale of the underlying loans. Changes in the fair values of these mortgage banking derivatives are included in net gains on sales of loans.

Mortgage banking activities include two types of commitments: rate lock commitments and forward loan commitments. Rate lock commitments are loans in our pipeline that have an interest rate locked with the customer. The commitments are generally for periods of 30-60 days and are at market rates. In order to mitigate the effect of the interest rate risk inherent in providing rate lock commitments, we economically hedge our commitments by entering into either a forward loan sales contract under best efforts or a trade of “to be announced (TBA)” mortgage-backed securities (“notional securities”) for mandatory delivery. The Company had no TBA mortgage-backed securities at December 31, 2023 and 2022.

The following table reflects the amount and market value of mortgage banking derivatives included in the consolidated balance sheet as of the period end:

|                              | December 31, 2023<br>(unaudited) |            | December 31, 2022 |            |
|------------------------------|----------------------------------|------------|-------------------|------------|
|                              | Notional Amount                  | Fair Value | Notional Amount   | Fair Value |
| <b>Assets (Liabilities):</b> |                                  |            |                   |            |
| Interest rate commitments    | \$ 5,345                         | \$ -       | \$ 3,940          | \$ -       |

The following table represents the notional amount of loans sold during the years ended December 31, 2023, 2022 and 2021:

|                               | December 31, 2023 | December 31, 2022 | December 31, 2021 |
|-------------------------------|-------------------|-------------------|-------------------|
| Notional amount of loans sold | \$ 10,799         | \$ 97,265         | \$ 2,358,510      |

The following table represents the revenue recognized on mortgage activities for the years ended December 31, 2023, 2022 and 2021:

|                                                              | December 31, 2023 | December 31, 2022 | December 31, 2021 |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|
| Gain (loss) on loans sold                                    | \$ 119            | \$ (64)           | \$ 21,646         |
| Gain (loss) from change in fair value of loans held-for-sale | -                 | (356)             | (8,408)           |
| Gain (loss) from change in fair value of derivatives         | -                 | 1,076             | (7,322)           |
|                                                              | <u>\$ 119</u>     | <u>\$ 656</u>     | <u>\$ 5,916</u>   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 18 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. As discussed in Note 1, effective January 1, 2023, the Company adopted ASC 326. The related allowance for credit losses on unfunded commitments was \$1.3 million at December 31, 2023.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

|                           | 2023       |               | 2022       |               |
|---------------------------|------------|---------------|------------|---------------|
|                           | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate |
| Commitments to make loans | \$ 14,578  | \$ 151,693    | \$ 30,441  | \$ 169,838    |
| Unused lines of credit    | \$ 7,513   | \$ 157,695    | \$ 9,364   | \$ 118,687    |
| Standby letters of credit | \$ 3,345   | \$ -          | \$ 3,149   | \$ -          |

Commitments to make loans are generally made for periods of 60 days or less, except for construction loan commitments, which are typically for a period of one year, and loans under a specific drawdown schedule, which are based on the individual contracts. The fixed-rate loan commitments had interest rates ranging from 3.0% to 9.50% and maturities ranging from 3 months to 30 years at December 31, 2023. The fixed-rate loan commitments had interest rates ranging from 2.0% to 8.5% and maturities ranging from 1 month to 30 years at December 31, 2022.

### NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of CF Bankshares Inc. follows:

|                                                | 2023              | 2022              |
|------------------------------------------------|-------------------|-------------------|
| <b><u>Assets</u></b>                           |                   |                   |
| Cash and cash equivalents                      | \$ 530            | \$ 487            |
| Equity securities                              | 5,000             | 5,000             |
| Investment in banking subsidiary               | 194,985           | 175,123           |
| Investment in and advances to other subsidiary | 257               | 247               |
| Other assets                                   | 3,387             | 3,027             |
| Total assets                                   | <u>\$ 204,159</u> | <u>\$ 183,884</u> |
| <b><u>Liabilities and Equity</u></b>           |                   |                   |
| Subordinated debentures                        | \$ 14,961         | \$ 14,922         |
| Other borrowings                               | 33,495            | 29,461            |
| Accrued expenses and other liabilities         | 329               | 253               |
| Stockholders' equity                           | 155,374           | 139,248           |
| Total liabilities and stockholders' equity     | <u>\$ 204,159</u> | <u>\$ 183,884</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

**NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)**

|                                                                   | 2023             | 2022             | 2021             |
|-------------------------------------------------------------------|------------------|------------------|------------------|
| Dividend income                                                   | \$ 6,000         | \$ 10,000        | \$ -             |
| Interest income                                                   | 1                | -                | 414              |
| Other income                                                      | 724              | 675              | 230              |
| Interest expense                                                  | 2,492            | 1,882            | 1,527            |
| Other expense                                                     | 887              | 796              | 851              |
| Loss before income tax and before undistributed subsidiary income | 3,346            | 7,997            | (1,734)          |
| Tax effect                                                        | 599              | 463              | 407              |
| Loss after income tax and before undistributed subsidiary income  | 3,945            | 8,460            | (1,327)          |
| Equity in undistributed subsidiary income                         | 12,992           | 9,704            | 19,780           |
| Net income                                                        | <u>\$ 16,937</u> | <u>\$ 18,164</u> | <u>\$ 18,453</u> |
| Comprehensive income                                              | <u>\$ 16,684</u> | <u>\$ 16,297</u> | <u>\$ 18,187</u> |

|                                                                                                                        | 2023          | 2022          | 2021          |
|------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| Cash flows from operating activities                                                                                   |               |               |               |
| Net Income                                                                                                             | \$ 16,937     | \$ 18,164     | \$ 18,453     |
| Adjustments:                                                                                                           |               |               |               |
| Effect of subsidiaries' operations                                                                                     | (12,992)      | (9,704)       | (19,780)      |
| Amortization, net                                                                                                      | 39            | 39            | 39            |
| Change in other assets and other liabilities                                                                           | (284)         | 263           | (681)         |
| Net cash used by operating activities                                                                                  | 3,700         | 8,762         | (1,969)       |
| Cash flows from investing activities                                                                                   |               |               |               |
| Investments in banking subsidiary                                                                                      | (6,000)       | (11,000)      | (10,000)      |
| Net cash from (used by ) investing activities                                                                          | (6,000)       | (11,000)      | (10,000)      |
| Cash flows from financing activities                                                                                   |               |               |               |
| Proceeds from other borrowings                                                                                         | 10,034        | 15,184        | 19,277        |
| Repayments of other borrowings                                                                                         | (6,000)       | (10,000)      | (4,500)       |
| Proceeds from exercise of stock options                                                                                | 84            | 387           | 185           |
| Acquisition of treasury shares surrendered upon vesting of restricted stock for payment of taxes and exercise proceeds | (122)         | (173)         | (139)         |
| Purchase of treasury shares                                                                                            | (177)         | (2,339)       | (2,972)       |
| Dividends paid                                                                                                         | (1,476)       | (1,153)       | (848)         |
| Net cash from financing activities                                                                                     | 2,343         | 1,906         | 11,003        |
| Net change in cash and cash equivalents                                                                                | 43            | (332)         | (966)         |
| Beginning cash and cash equivalents                                                                                    | 487           | 819           | 1,785         |
| Ending cash and cash equivalents                                                                                       | <u>\$ 530</u> | <u>\$ 487</u> | <u>\$ 819</u> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

## NOTE 20 – EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share:

|                                                                                          | Year Ended           |                      |                      |
|------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
|                                                                                          | December 31,<br>2023 | December 31,<br>2022 | December 31,<br>2021 |
| <b>Basic</b>                                                                             |                      |                      |                      |
| Net income                                                                               | \$ 16,937            | \$ 18,164            | \$ 18,453            |
| Weighted average common shares outstanding including unvested share-based payment awards | 6,547,283            | 6,508,064            | 6,605,278            |
| Less: Unvested share-based payment awards-2019 Plan                                      | (126,195)            | (111,011)            | (97,122)             |
| Average shares                                                                           | 6,421,088            | 6,397,053            | 6,508,156            |
| Basic earnings per common share                                                          | \$ 2.64              | \$ 2.84              | \$ 2.84              |
| <b>Diluted</b>                                                                           |                      |                      |                      |
| Net income                                                                               | \$ 16,937            | \$ 18,164            | \$ 18,453            |
| Weighted average common shares outstanding for basic earnings per common share           | 6,421,088            | 6,397,053            | 6,508,156            |
| Add: Dilutive effects of assumed exercises of stock options                              | 3,353                | 27,096               | 45,169               |
| Add: Dilutive effects of unvested share-based payment awards-2019 Plan                   | 23,006               | 111,011              | 97,122               |
| Average shares and dilutive potential common shares                                      | 6,447,447            | 6,535,160            | 6,650,447            |
| Diluted earnings per common share                                                        | \$ 2.63              | \$ 2.78              | \$ 2.77              |

There were no anti-dilutive securities during the years ended December 31, 2023, 2022 and 2021.

## NOTE 21 - CONTINGENT LIABILITIES

### General Litigation:

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

### NOTE 22 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of accumulated other comprehensive income, net of tax, for the years ended December 31, 2023, 2022 and 2021 and summarizes the significant amounts reclassified out of each component of accumulated other comprehensive income:

#### Changes in Accumulated Other Comprehensive Income by Component

For the Year Ended December 31, 2023, 2022 and 2021 <sup>(1)</sup>

|                                                                                   | Unrealized Gains and Losses on Available-for-Sale Securities |                   |                 |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------|-------------------|-----------------|
|                                                                                   | 2023                                                         | 2022              | 2021            |
| Accumulated other comprehensive gain (loss), beginning of period                  | \$ (2,037)                                                   | \$ (170)          | \$ 96           |
| Other comprehensive gain (loss) before reclassifications                          | (253)                                                        | (1,867)           | (266)           |
| Less amount reclassified from accumulated other comprehensive loss <sup>(2)</sup> | -                                                            | -                 | -               |
| Net current-period other comprehensive income (loss)                              | (253)                                                        | (1,867)           | (266)           |
| Accumulated other comprehensive income (loss), end of period                      | <u>\$ (2,290)</u>                                            | <u>\$ (2,037)</u> | <u>\$ (170)</u> |

<sup>(1)</sup> All amounts are net of tax. Amounts in parentheses indicate a reduction of other comprehensive income.

<sup>(2)</sup> There were no amounts reclassified out of other comprehensive income for the years ended December 31, 2023, 2022 and 2021.

### NOTE 23 - BRANCH SALE

On December 29, 2020, CFBank entered into a Branch Purchase and Assumption Agreement (the “P&A Agreement”) with Consumers National Bank (“Consumers”) providing for the acquisition by Consumers of two branches of CFBank in Columbiana County, Ohio – CFBank’s drive-up branch location in Wellsville, Ohio and CFBank’s branch location in Calcutta, Ohio (the “Branches”).

On July 16, 2021, CFBank completed its sale to Consumers of certain assets and liabilities associated with the Branches. Pursuant to the terms of the P&A Agreement, Consumers assumed certain deposit liabilities and acquired certain loans, as well as cash, real property, personal property and other fixed assets associated with the Branches.

During the third quarter of 2021, the Company recognized a combined gain on sale of deposits of \$1.9 million related to the sale of the Branches.

### NOTE 24- OTHER ASSETS HELD FOR SALE

During the third quarter of 2022, the Company began marketing its Worthington headquarters building for sale as it prepared to move its headquarters to Columbus, Ohio. On October 20, 2022, the Company entered into a contract to sell the building for \$2,010. As a result, impairment expense of \$542 was recorded during September 2022 to adjust the building and land value to the offered price, less costs to sell, and the associated assets were transferred to other assets held for sale on the consolidated balance sheet. The sale of the building was completed in May 2023.

### NOTE 25- SUBSEQUENT EVENT

On February 6, 2024, the Company issued an aggregate of 2,000 shares of its newly-designated series of non-voting convertible perpetual preferred stock, series D, par value \$0.01 per share, to an existing stockholder of the Company in exchange for 200,000 shares of (Voting) Common Stock.

**CF Bankshares Inc. and CFBank  
Board of Directors**

Robert E. Hoeweler  
*Chief Executive Officer, Hoeweler Holdings  
Chairman of the Board, CF Bankshares Inc. and CFBank*

Thomas P. Ash  
*Retired, formerly Director of Governmental Relations  
Buckeye Association of School Administrators*

Edward W. Cochran  
*Attorney*

James H. Frauenberg  
*Principal Owner,  
Addison Holdings LLC,*

Sundeep Rana  
*Managing Principal  
Castle Creek Capital Partners VII, L.P.*

David L. Royer  
*Executive Vice President of Development,  
Continental Real Estate Companies*

Timothy T. O'Dell  
*President and Chief Executive Officer, CF Bankshares Inc. and  
Chief Executive Officer, CFBank*

**CF Bankshares Inc. Officers**

Timothy T. O'Dell  
*President and Chief Executive Officer*

Kevin J. Beerman  
*Executive Vice President and Chief Financial Officer*

Barbara Pyke  
*Corporate Secretary*

**CFBank Executive Officers**

Timothy T. O'Dell  
*Chief Executive Officer*

Bradley J. Ringwald  
*President*

Kevin J. Beerman  
*Executive Vice President and Chief Financial Officer*

Marianne N. McKinney  
*Executive Vice President and Chief Operating Officer*

C. Timothy Meder  
*Executive Vice President and Chief Commercial Credit Officer*

**CFBank Office Locations  
(Markets Served)**

**Columbus, Ohio (Greater Columbus)\***  
4960 E. Dublin Granville Road, Suite 400  
Columbus, Ohio 43081  
614-334-7979

**Columbus, Ohio (Greater Columbus)\***  
1942 Polaris Parkway  
Columbus, Ohio 43240  
614-505-5605

**Woodmere, Ohio (Greater Cleveland)\***  
28879 Chagrin Blvd.  
Woodmere, Ohio 44122  
216-468-3100

**Cleveland, Ohio (Greater Cleveland)\***  
2715 Detroit Ave  
Cleveland, Ohio 44113  
216-877-8181

**Fairlawn, Ohio (Akron/Canton)\***  
3009 Smith Road, Suite 100  
Fairlawn, Ohio 44333  
330-666-7979

**Blue Ash, Ohio (Cincinnati)\***  
10300 Alliance Road #150  
Cincinnati, Ohio 45242  
513-427-3005

**Cincinnati, Ohio (Cincinnati)\***  
4770 Red Bank Expressway  
Cincinnati, Ohio 45227  
513-964-7014

**Indianapolis, Indiana (Indianapolis)\***  
4729 East 82nd Street  
Indianapolis, Indiana 46250  
314-668-0484

\* Full service branch

\*\* Loan production office

## **Corporate Data**

### **Annual Report**

**A COPY OF THE ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS AVAILABLE WITHOUT CHARGE UPON WRITTEN REQUEST TO:**

Kevin J. Beerman  
Executive Vice President and Chief Financial Officer  
CF Bankshares Inc.  
4960 E. Dublin Granville Road, Suite 400  
Columbus, Ohio 43081  
Phone: 614-505-5770  
Fax: 614-505-5761  
Email: [Kevinbeerman@cfbankmail.com](mailto:Kevinbeerman@cfbankmail.com)

### **Annual Meeting**

The Annual Meeting of Shareholders of CF Bankshares Inc. will be held “virtually” through a live webcast at 10:00 a.m., local time, on Wednesday, May 29, 2024.

### **Shareholder Services**

Computershare, Inc. serves as transfer agent for CF Bankshares Inc. shares. Communications regarding change of address, transfer of shares or lost certificates should be sent to:

Computershare, Inc.  
250 Royall Street  
Canton, MA 02021  
Phone: 1-800-368-5948

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[www.cf.bank](http://www.cf.bank)