UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended - September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to

Commission File Number: 001-36192

Civista Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Ohio **(State or other jurisdiction of incorporation or organization)**	**34-1558688** **(I.R.S. Employer Identification No.)**
100 East Water Street, Sandusky, Ohio **(Address of principal executive offices)**	**44870** **(Zip Code)**

Registrant's telephone number, including area code: (419) 625-4121

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	CIVB	NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Shares, no par value, outstanding at November 6, 2023—15,695,997 shares

CIVISTA BANCSHARES, INC.
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Part I – Financial Information

ITEM 1. Financial Statements

CIVISTA BANCSHARES, INC.
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and due from financial institutions	$ 50,316	$ 43,361
Investments in time deposits	1,472	1,477
Securities available-for-sale	593,487	615,402
Equity securities	2,021	2,190
Loans held for sale	1,589	683
Loans, net of allowance for credit losses of $35,280 and $28,511	2,719,610	2,518,155
Other securities	34,224	33,585
Premises and equipment, net	58,989	64,018
Accrued interest receivable	11,489	11,178
Goodwill	125,078	125,695
Other intangible assets, net	9,920	10,759
Bank owned life insurance	54,053	53,543
Swap assets	19,784	16,579
Deferred taxes	25,112	16,009
Other assets	25,772	25,196
Total assets	$ 3,732,916	$ 3,537,830
LIABILITIES		
Deposits		
Noninterest-bearing	$ 802,614	$ 896,333
Interest-bearing	1,993,129	1,723,651
Total deposits	2,795,743	2,619,984
Short-term Federal Home Loan Bank advances	431,500	393,700
Securities sold under agreements to repurchase	-	25,143
Long-term Federal Home Loan Bank advances	2,573	3,578
Subordinated debentures	103,921	103,799
Other borrowings	10,964	15,516
Swap liabilities	19,784	16,579
Securities purchased payable	1,755	1,338
Tax refunds in process	493	278
Accrued expenses and other liabilities	33,438	23,080
Total liabilities	3,400,171	3,202,995
SHAREHOLDERS' EQUITY		
Common shares, no par value, 40,000,000 shares authorized, 19,288,674 shares issued at September 30, 2023 and 19,231,061 shares issued at December 31, 2022, including Treasury shares	310,975	310,182
Retained earnings	176,644	156,492
Treasury shares, 3,592,677 common shares at September 30, 2023 and 3,502,827 common shares at December 31, 2022, at cost	(75,412)	(73,794)
Accumulated other comprehensive loss	(79,462)	(58,045)
Total shareholders' equity	332,745	334,835
Total liabilities and shareholders' equity	$ 3,732,916	$ 3,537,830

See notes to interim unaudited consolidated financial statements

CIVISTA BANCSHARES, INC.
Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest and dividend income				
Loans, including fees	$ 39,732	$ 27,176	$ 114,108	$ 70,065
Taxable securities	2,999	2,936	8,817	6,431
Tax-exempt securities	2,336	1,998	6,917	5,669
Deposits in other banks	719	423	818	1,098
Total interest and dividend income	45,786	32,533	130,660	83,263
Interest expense				
Deposits	9,584	936	20,350	2,351
Federal Home Loan Bank advances	3,261	181	10,668	564
Subordinated debentures	1,239	975	3,606	2,701
Securities sold under agreements to repurchase and other	198	2	592	8
Total interest expense	14,282	2,094	35,216	5,624
Net interest income	31,504	30,439	95,444	77,639
Provision for credit losses	630	300	2,111	1,000
Net interest income after provision for loan losses	30,874	30,139	93,333	76,639
Noninterest income				
Service charges	1,853	1,885	5,457	5,004
Net gain on sale of securities	—	4	—	10
Net gain (loss) on equity securities	69	(133)	(169)	(44)
Net gain on sale of loans and leases	787	637	2,033	2,146
ATM/Interchange fees	1,424	1,394	4,227	3,990
Wealth management fees	1,197	1,208	3,570	3,713
Lease revenue and residual income	1,913	—	6,160	—
Bank owned life insurance	266	255	830	732
Tax refund processing fees	—	—	2,375	2,375
Swap fees	21	—	198	—
Other	595	484	3,661	1,086
Total noninterest income	8,125	5,734	28,342	19,012
Noninterest expense				
Compensation expense	14,054	12,484	44,137	36,654
Net occupancy expense	1,368	1,252	4,096	3,428
Equipment expense	2,687	637	8,214	1,694
Contracted data processing	651	846	1,730	1,899
FDIC assessment	438	170	1,215	568
State franchise tax	590	629	1,770	1,848
Professional services	1,010	1,335	3,804	3,593
Amortization of intangible assets	398	456	1,195	890
ATM/Interchange expense	619	604	1,814	1,659
Marketing	497	372	1,542	1,069
Software maintenance expense	1,052	942	2,989	2,440
Other operating expenses	3,388	2,828	9,792	7,450
Total noninterest expense	26,752	22,555	82,298	63,192
Income before taxes	12,247	13,318	39,377	32,459
Income tax expense	1,860	2,206	6,068	5,180
Net Income	$ 10,387	$ 11,112	$ 33,309	$ 27,279
Earnings per common share, basic	$ 0.66	$ 0.72	$ 2.12	$ 1.82
Earnings per common share, diluted	$ 0.66	$ 0.72	$ 2.12	$ 1.82

See notes to interim unaudited consolidated financial statements

CIVISTA BANCSHARES, INC.
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	$ 10,387	$ 11,112	$ 33,309	$ 27,279
Other comprehensive income (loss):				
Unrealized holding (losses) on available-for-sale securities	(30,058)	(29,926)	(27,217)	(99,837)
Tax effect	6,366	6,300	5,800	21,043
Reclassification of gains recognized in net income	—	(4)	—	(10)
Tax effect	—	—	—	2
Pension liability adjustment	—	69	—	208
Tax effect	—	(15)	—	(44)
Total other comprehensive (loss)	(23,692)	(23,576)	(21,417)	(78,638)
Comprehensive income (loss)	$ (13,305)	$ (12,464)	$ 11,892	$ (51,359)

See notes to interim unaudited consolidated financial statements

CIVISTA BANCSHARES, INC.
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
(In thousands, except share data)

	Common Shares					
	Outstanding Shares	Amount	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, June 30, 2023	15,780,227	$ 310,784	$ 168,777	$ (73,915)	$ (55,770)	$ 349,876
Net Income	—	—	10,387	—	—	10,387
Other comprehensive loss	—	—	—	—	(23,692)	(23,692)
Stock-based compensation	(84,230)	191	—	—	—	191
Common stock dividends ($0.15 per share)	—	—	(2,520)	—	—	(2,520)
Purchase of common stock	—	—	—	(1,497)	—	(1,497)
Balance, September 30, 2023	15,695,997	$ 310,975	$ 176,644	$ (75,412)	$ (79,462)	$ 332,745

	Common Shares					
	Outstanding Shares	Amount	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, June 30, 2022	14,537,433	$ 278,240	$ 137,592	$ (67,528)	$ (46,242)	$ 302,062
Net Income	—	—	11,112	—	—	11,112
Other comprehensive loss	—	—	—	—	(23,576)	(23,576)
Stock-based compensation	—	153	—	—	—	153
Stock issued for acquisition of Comunibanc Corp.	984,723	21,122	—	—	—	21,122
Common stock dividends ($0.14 per share)	—	—	(2,158)	—	—	(2,158)
Purchase of common stock	(286,611)	—	—	(6,113)	—	(6,113)
Balance, September 30, 2022	15,235,545	$ 299,515	$ 146,546	$ (73,641)	$ (69,818)	$ 302,602

See notes to interim unaudited consolidated financial statements

	Common Shares					
	Outstanding Shares	Amount	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2022	15,728,234	$ 310,182	$ 156,492	$ (73,794)	$ (58,045)	$ 334,835
Cumulative-effect adjustment for adoption of ASC 326	—	—	(6,069)	—	—	(6,069)
Balance January 1, 2023	15,728,234	$ 310,182	$ 150,423	$ (73,794)	$ (58,045)	$ 328,766
Net Income	—	—	33,309	—	—	33,309
Other comprehensive loss	—	—	—	—	(21,417)	(21,417)
Stock-based compensation	57,613	793	—	—	—	793
Common stock dividends ($0.29 per share)	—	—	(7,088)	—	—	(7,088)
Purchase of common stock	(89,850)	—	—	(1,618)	—	(1,618)
Balance, September 30, 2023	15,695,997	$ 310,975	$ 176,644	$ (75,412)	$ (79,462)	$ 332,745

	Common Shares					
	Outstanding Shares	Amount	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2021	14,954,200	$ 277,741	$ 125,558	$ (56,907)	$ 8,820	$ 355,212
Net Income	—	—	27,279	—	—	27,279
Other comprehensive loss	—	—	—	—	(78,638)	(78,638)
Stock-based compensation	36,860	652	—	—	—	652
Stock issued for acquisition of Comunibanc Corp.	984,723	21,122	—	—	—	21,122
Common stock dividends ($0.28 per share)	—	—	(6,291)	—	—	(6,291)
Purchase of common stock	(740,238)	—	—	(16,734)	—	(16,734)
Balance, September 30, 2022	15,235,545	$ 299,515	$ 146,546	$ (73,641)	$ (69,818)	$ 302,602

See notes to interim unaudited consolidated financial statements

CIVISTA BANCSHARES, INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30, 2023	2022
Net cash provided by operating activities	$ 60,593	$ 27,421
Cash flows used for investing activities:		
Maturities, paydowns and calls of investments in time deposits	—	245
Proceeds from sale of time certificates	—	742
Maturities, paydowns and calls of securities, available-for-sale	7,907	36,910
Purchases of securities, available-for-sale	(13,241)	(117,974)
Proceeds from sale of securities available-for-sale	—	57,322
Purchase of other securities	(27,890)	(1,606)
Redemption of other securities	27,251	1,592
Purchase of equity securities	—	(1,000)
Net change in loans	(208,689)	(158,909)
Acquisition, net of cash acquired	—	(21,870)
Premises and equipment purchases	(2,164)	(3,208)
Net cash used for investing activities	(216,826)	(207,756)
Cash flows from financing activities:		
Repayment of long-term FHLB advances	(1,005)	(89,983)
Net change in short-term FHLB advances	37,800	55,000
Repayment of other borrowings	(15,516)	—
Increase in deposits	175,758	20,358
Decrease in securities sold under repurchase agreements	(25,143)	(5,340)
Purchase of treasury shares	(1,618)	(16,734)
Common dividends paid	(7,088)	(6,291)
Net cash provided by (used for) financing activities	163,188	(42,990)
Increase (decrease) in cash and cash equivalents	6,955	(223,325)
Cash and cash equivalents at beginning of period	43,361	264,239
Cash and cash equivalents at end of period	$ 50,316	$ 40,914
Cash paid during the period for:		
Interest	$ 26,393	$ 4,969
Income taxes	7,333	3,737
Supplemental cash flow information:		
Change in fair value of swap asset	(3,205)	(7,376)
Change in fair value of swap liability	3,205	7,376
Securities purchased not settled	1,753	2,611
The Company purchased all of the capital stock of Comunibanc Corp. for $46,090 on July 1, 2022. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired	$ —	$ 340,649
Less: common stock issued	—	21,122
Cash paid for the capital stock	—	24,968
Liabilities assumed	$ —	$ 294,559

See notes to interim unaudited consolidated financial statements

(1) Consolidated Financial Statements

Nature of Operations and Principles of Consolidation: Civista Bancshares, Inc. (CBI) is an Ohio corporation and a registered financial holding company. The Consolidated Financial Statements include the accounts of CBI and its wholly-owned direct and indirect subsidiaries: Civista Bank (Civista), First Citizens Insurance Agency, Inc. (FCIA), Water Street Properties, Inc. (Water St.), CIVB Risk Management, Inc. (CRMI) and First Citizens Investments, Inc. (FCI).

Civista provides financial services through its offices in the Ohio counties of Erie, Crawford, Champaign, Franklin, Logan, Madison, Summit, Huron, Ottawa, Richland, Montgomery, Henry, Wood and Cuyahoga, in the Indiana counties of Dearborn and Ripley and in the Kentucky county of Kenton. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Financial instruments that potentially represent concentrations of credit risk include deposit accounts in other financial institutions that are in excess of federally insured limits. In October of 2022, Civista acquired Vision Financial Group (VFG) as a wholly-owned subsidiary engaging in general equipment leasing and financing, headquartered in Pittsburgh, Pennsylvania. As of August 31, 2023, VFG was merged into Civista and now operates as a division and has been rebranded as Civista Leasing and Finance (CLF).

FCIA is wholly-owned by CBI and was formed to allow the Company to participate in commission revenue generated through its third-party insurance agreement. Water St. is wholly-owned by CBI and was formed to hold properties repossessed by CBI subsidiaries. CRMI is a captive insurance company that is wholly-owned by CBI and allows CBI and its subsidiaries to insure against certain risks unique to their operations. The operations of CRMI are located in Wilmington, Delaware. FCI is wholly-owned by Civista and holds and manages its securities portfolio. The operations of FCI are located in Wilmington, Delaware.

The above companies together are referred to as the “Company.” Intercompany balances and transactions are eliminated in consolidation. Management considers the Company to operate primarily in one reportable segment, banking.

The Consolidated Financial Statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company’s financial position as of September 30, 2023 and its results of operations and changes in cash flows for the periods ended September 30, 2023 and 2022 have been made. The accompanying Unaudited Consolidated Financial Statements have been prepared in accordance with instructions of Form 10-Q, and therefore certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted. The results of operations for the period ended September 30, 2023 are not necessarily indicative of the operating results for the full year. Reference is made to the accounting policies of the Company described in the notes to the audited financial statements contained in the Company’s 2022 annual report. The Company has consistently followed these policies in preparing this Form 10-Q.

(2) Significant Accounting Policies

Allowance for Credit Losses: On January 1, 2023, the Company adopted Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")*. ASU 2016-13 introduces a new credit loss methodology, Current Expected Credit Losses ("CECL"), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. ASU 2016-13 amends guidance on reporting credit losses for financial assets held at amortized cost basis and available for sale debt securities. ASU 2016-13 eliminates the probable initial recognition threshold previously required under Generally Accepted Accounting Principles ("GAAP") and instead, requires an entity to reflect its current estimate of all expected credit losses based on historical experience, current conditions and reasonable and supportable forecasts. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the reserve for credit losses. In addition, entities need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

The Company adopted Accounting Standards Certification ("ASC") 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the periods beginning after January 1, 2023 are presented under Accounting Standards Codification (“ASC”) 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company adopted ASC 326 using the prospective transition approach for purchased credit deteriorated ("PCD") financial assets that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In accordance with ASC 326, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2023, the amortized cost basis of the PCD assets was adjusted to reflect the addition of $1,668 to the allowance for credit losses. The remaining noncredit discount (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2023. The adoption of CECL resulted in an increase to our total allowance for credit losses (“ACL”) on loans held for investment of $4.3 million, an increase in allowance for credit losses on unfunded loan commitments of $3.4 million, a reclassification of PCI discount from loans to the ACL of $1.7 million, and an increase in deferred tax asset of $1.6 million. The Company also recorded a net reduction of retained earnings of $6.1 million upon adoption.

The allowance for credit losses is evaluated on a regular basis and established through charges to earnings in the form of a provision for credit losses. When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Portfolio Segmentation (“Pooled Loans”)

Portfolio segmentation is defined as the pooling of loans based upon similar risk characteristics such that quantitative methodologies and qualitative adjustment factors for estimating the allowance for credit losses are constructed for each segment. The Company has identified eight portfolio segments of loans including Commercial & Agriculture, Commercial Real Estate – Owner Occupied, Commercial Real Estate – Non-Owner Occupied, Residential Real Estate, Real Estate Construction, Farm Real Estate, Lease Financing Receivable and Consumer and Other Loans.

The allowance for credit losses for Pooled Loans is estimated based upon periodic review of the collectability of the loans quantitatively correlating historical loan experience with reasonable and supportable forecasts using forward looking information. The Company utilized a discounted cash flow (DCF) method to estimate the quantitative portion of the allowance for credit losses for loans evaluated on a collective pooled basis. For each segment, a loss driver analysis (LDA) was performed in order to identify appropriate loss drivers and create a regression model for use in forecasting cash flows. The LDA utilized the Company’s own Federal Financial Institutions Examination Council’s (“FFIEC”) Call Report data for all segments except indirect auto and all new and unknown values. Peer data was incorporated into the analysis for all segments except indirect auto and all new and unknown values. The Company has established a one-year reasonable and supportable forecast period with a one-year straight-line reversion to the long-term historical average. The Company’s policy is to utilize its own data, which includes loan-level loss data from March 31, 2004 through December 31, 2019 and from December 31, 2021 through June 30, 2022, whenever possible. The two-year period from December 31, 2019 to December 31, 2021 was excluded due to modeling errors stemming from the impact of the COVID-19 pandemic. Peer data is utilized when there are not sufficient defaults for a satisfactory sound calculation, or if the Company does not have its own loan-level detail reflecting similar economic conditions as the forecasted loss drivers.

Key inputs into the DCF model include loan-level detail, including the amortized cost basis of individual loans, payment structure, loss history, and forecasted loss drivers. The Company uses the central tendency midpoint seasonally adjusted forecasts from the Federal Open Market Committee (FOMC). Other key assumptions include the probability of default (PD), loss given default (LGD), and prepayment/curtailment rates. When possible, the Company utilizes its own PDs for the reasonable and supportable forecast period. When it is not possible to use the Company’s own PDs, the LDA is utilized to determine PDs based on the forecasted economic factors. In all cases, the LDA is then utilized to determine the long-term historical average, which is reached over the reversion period. When possible, the Company utilizes its own LGDs for the reasonable and supportable forecast period. When it is not possible to use the Company’s own LGDs, the LGD is derived using a method referred to as Frye Jacobs. The Frye Jacobs method is a mathematical formula that traces the relationship between LGD and PD over time and projects the LGD based on the level of PD forecasted. In all cases, the Frye Jacobs method is utilized to calculate LGDs during the reversion period and long-term historical average. Prepayment and curtailment rates were calculated based on the Company’s own data utilizing a one-year average. When the discounted cash flow method is used to determine the allowance for credit losses, management incorporates expected prepayments to determine the effective interest rate utilized to discount expected cash flow.

Adjustments to the quantitative evaluation may be made to account for differences in current or expected qualitative risk characteristics such as changes in: underwriting standards, changes in the value of underlying collateral dependent loans, the existence and effect of portfolio concentration, delinquency level, regulatory environment, economic conditions, Company management and the status of portfolio administration including the Company's loan review function.

Purchased Credit Deteriorated (PCD) Loans

The Company has purchased loans, some of which have shown evidence of credit deterioration since origination. Upon adoption of ASC 326, the Company elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. Loans are only removed from the existing pools if they are written off, paid off, or sold. Upon adoption of ASC 326, the allowance for credit losses was determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the pool and the new amortized cost basis is the noncredit premium or discount which will be amortized into interest income over the remaining life of the pool. Changes to the allowance for credit losses after adoption are recorded through provision expense.

Individually Evaluated Loans

The Company establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans included in the forecasted allowance for credit losses. These individually evaluated loans are removed from the pooling approach discussed above for the forecasted allowance for credit losses, and include nonaccrual loans, loan and lease modifications experiencing financial difficulty, and other loans deemed appropriate by management.

Available for Sale ("AFS") Debt Securities

For AFS securities in an unrealized loss position, we first assess whether (i) we intend to sell, or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. AFS securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Accrued Interest Receivable

Upon adoption of ASU 2016-13 and its related amendments on January 1, 2023, the Company made the following elections regarding accrued interest receivable:

- Presenting accrued interest receivable balances separately within another line item on the statement of financial condition.
- Excluding accrued interest receivable that is included in the amortized cost of financing receivables and debt securities from related disclosure requirements.
- Continuing our policy to write off accrued interest receivable by reversing interest income. For both commercial and consumer loans, the write off typically occurs upon becoming 90 days past due. Historically, the Company has not experienced uncollectible accrued interest receivable on its investment securities. However, the Company would generally write off accrued interest receivable by reversing interest income if the Company does not reasonably expect to receive payments. Due to the timely manner in which accrued interest receivables are written off, the amounts of such write offs are immaterial.
- Not measuring an allowance for credit losses for accrued interest receivable due to the Company's policy of writing off uncollectible accrued interest receivable balances in a timely manner, as described above.

Reserve for Unfunded Commitments

The reserve for unfunded commitments (the “Unfunded Reserve”) represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. The Company is defining unconditionally cancelable in its literal sense, meaning that a commitment may be cancelled by the Company for any, or for no reason whatsoever. However, the Company in its business dealings, has no practical history of unconditionally canceling commitments. Commitments are not typically cancelled until a default or a defined condition occurs. Being that its historical practice has been to not cancel credit commitments unconditionally, the Company has made the decision to reserve for Unfunded Commitments. The Unfunded Reserve is recognized as a liability (included within other liabilities in the Consolidated Balance Sheets), with adjustments to the reserve recognized as a provision for credit loss expense in the Consolidated Statements of Operations. The Unfunded Reserve is determined by estimating expected future fundings, under each segment, and applying the expected loss rates. Expected future fundings over the estimated life of commitments are based on historical averages of funding rates (i.e., the likelihood of draws taken). To estimate future fundings on unfunded balances, current funding rates are compared to historical funding rates. Estimate of credit losses are determined using the same loss rates as funded loans.

Revisions: An immaterial revision has been made to the Consolidated Financial Statements for a change in the fair market value of loans for the period ended December 31, 2022, as set forth in Note 13 herein. This revision did not have a significant impact on the affected financial statement line item or total assets, equity or net income.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in financial statements and the disclosures provided, and future results could differ. The allowance for credit losses, consideration of impairment of goodwill, fair values of financial instruments, deferred taxes, swap assets/liabilities and pension obligations are particularly subject to change.

Adoption of New Accounting Standards:

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The ASU introduces a new credit loss methodology, CECL, which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods under prior GAAP, which generally require that a loss be incurred before it is recognized. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

On January 1, 2023, the Company adopted the guidance prospectively with a cumulative adjustment to retained earnings. The Company has not restated comparative information for 2022 and, therefore, the comparative information for 2022 is reported under the old model and is not comparable to the information presented for 2023.

(Amounts in thousands, except share data)

At adoption, the Company recognized an incremental allowance for credit losses on its loans to customers of $4.3 million, a liability for off-balance sheet unfunded commitments of $3.4 million and a reclassification of the discount on PCI loans to the ACL of $1.7 million. Additionally, the Company recorded a $6.1 million after tax decrease in retained earnings associated with the increased estimated credit losses. The “Day 1” impact of CECL adoption is summarized below:

CECL Adoption

	December 31, 2022	CECL Adoption Impact	Impact of Adopting ASC 326 - PCD Loans	January 1, 2023
Allowance for Credit Losses:				
Commercial & Agriculture	$ 3,011	$ 429	$ 390	$ 3,830
Commercial Real Estate:				
Owner Occupied	4,565	1,075	179	5,819
Non-Owner Occupied	14,138	(2,847)	—	11,291
Residential Real Estate	3,145	2,762	386	6,293
Real Estate Construction	2,293	1,502	—	3,795
Farm Real Estate	291	(28)	—	263
Lease Financing Receivable	429	1,743	635	2,807
Consumer and Other	98	201	78	377
Unallocated	541	(541)	—	—
Total Allowance for Credit Losses	$ 28,511	$ 4,296	$ 1,668	$ 34,475
Reserve for Unfunded Commitments	—	3,386	—	3,386
Total Reserve for Credit Losses	$ 28,511	$ 7,682	$ 1,668	$ 37,861

Retained Earnings		
Total Pre-tax Impact		$ (7,682)
Tax Effect		1,613
Decrease to Retained Earnings		$ (6,069)

The Company did not record an allowance for available-for-sale securities on Day 1 as the investment portfolio consists primarily of debt securities explicitly or implicitly backed by the U.S. Government for which credit risk is deemed minimal. The impact going forward will depend on the composition, characteristics, and credit quality of the securities portfolio as well as the economic conditions at future reporting periods.

On January 1, 2023, the Company adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is an SEC filer, such as the Company, was to adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. In November 2019, however, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which deferred the effective date for ASC 350, *Intangibles – Goodwill and Other*, for SEC filers that were eligible to be smaller reporting companies as of November 15, 2019, such as the Company, to fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption of the ASU provisions did not have a significant impact on the Company's Consolidated Financial Statements.

(Amounts in thousands, except share data)

On January 1, 2023, the Company adopted ASU *2022-02*, Financial Instruments - *Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02")*. ASU 2022-02 eliminates the recognition and measurement guidance for troubled debt restructurings and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. This ASU also requires enhanced disclosure for loans that have been charged off. The adoption of ASU 2022-02 provisions did not have a significant impact on the Company's Consolidated Financial Statements.

Effect of Newly Issued but Not Yet Effective Accounting Standards:

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The Update is designed to provide relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements necessitated by reference rate reform. The Update also provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022; however, a deferral of the implementation of reference rate reform was issued in December of 2022, which extends the implementation to December 31, 2024. The Company is working through this transition via a multi-disciplinary project team. We are still evaluating the impact the change from LIBOR to a benchmark like SOFR or Prime Rate will have on our financial condition, results of operations or cash flows.

Other recent ASU's issued by the FASB did not, or are not believed by management to have, a material effect on the Company's present or future Consolidated Financial Statements.

(3) Securities

The amortized cost and fair market value of available-for-sale securities and the related gross unrealized gains and losses recognized were as follows:

September 30, 2023	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and obligations of U.S. government agencies	$ 77,081	$ 192	$ (5,978)	$ 71,295
Obligations of states and political subdivisions	360,019	45	(49,529)	310,535
Mortgage-backed securities in government sponsored entities	250,503	5	(38,851)	211,657
Total debt securities	$ 687,603	$ 242	$ (94,358)	$ 593,487

December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and obligations of U.S. government agencies	$ 66,495	$ 20	$ (5,486)	$ 61,029
Obligations of states and political subdivisions	350,104	784	(33,640)	317,248
Mortgage-backed securities in government sponsored entities	265,752	15	(28,642)	237,125
Total debt securities	$ 682,351	$ 819	$ (67,768)	$ 615,402

The amortized cost and fair value of securities at September 30, 2023, by contractual maturity, is shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

Available for sale	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 6,195	$ 6,149
Due after one year through five years	76,198	69,124
Due after five years through ten years	38,390	35,162
Due after ten years	316,317	271,395
Mortgage-backed securities	250,503	211,657
Total securities available-for-sale	$ 687,603	$ 593,487

(Amounts in thousands, except share data)

Proceeds from sales of securities available-for-sale, gross unrealized gains and gross realized losses were as follows:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Sale proceeds	$ —	$ 57,322	$ —	$ 57,322
Gross realized gains	—	—	—	—
Gross realized losses	—	—	—	—
Gains (losses) from securities called or settled by the issuer	—	4	—	10

Securities were pledged to secure public deposits, other deposits and liabilities as required by law. The carrying value of pledged securities was approximately $210,369 and $218,344 as of September 30, 2023 and December 31, 2022, respectively.

The following tables show gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2023 and December 31, 2022:

September 30, 2023	**12 Months or less**		**More than 12 months**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury securities and obligations of U.S. government agencies	$ 715	$ (3)	$ 59,404	$ (5,975)	$ 60,119	$ (5,978)
Obligations of states and political subdivisions	143,524	(7,518)	155,603	(42,011)	299,127	(49,529)
Mortgage-backed securities in gov't sponsored entities	21,364	(1,784)	189,711	(37,067)	211,075	(38,851)
Total temporarily impaired	$ 165,603	$ (9,305)	$ 404,718	$ (85,053)	$ 570,321	$ (94,358)

December 31, 2022	**12 Months or less**		**More than 12 months**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury securities and obligations of U.S. government agencies	$ 21,042	$ (880)	$ 39,567	$ (4,606)	$ 60,609	$ (5,486)
Obligations of states and political subdivisions	169,594	(13,016)	73,967	(20,624)	243,561	(33,640)
Mortgage-backed securities in gov't sponsored entities	111,639	(4,713)	124,622	(23,929)	236,261	(28,642)
Total temporarily impaired	$ 302,275	$ (18,609)	$ 238,156	$ (49,159)	$ 540,431	$ (67,768)

At September 30, 2023, there were a total of 574 securities in the portfolio with unrealized losses mainly due to higher current market rates when compared to the time of purchase. Unrealized losses on securities have not been recognized into income because the issuers' securities are of high credit quality, management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to currently higher market rates when compared to the time of purchase. The fair value is expected to recover as the securities approach their maturity date or reset date. The Company does not intend to sell until recovery and does not believe selling will be required before recovery.

The following table presents the net gains and losses on equity investments recognized in earnings for the three- and nine-months ended September 30, 2023 and 2022 and the portion of unrealized gains and losses for the period that relates to equity investments held at September 30, 2023 and 2022:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net gains (losses) recognized on equity securities during the period	$ 69	$ (133)	$ (169)	$ (44)
Less: Net losses realized on the sale of equity securities during the period	—	—	—	—
Unrealized gains (losses) recognized on equity securities held at reporting date	$ 69	$ (133)	$ (169)	$ (44)

(Amounts in thousands, except share data)

(4) Loans

Loan balances were as follows:

	September 30, 2023	December 31, 2022
Commercial & Agriculture	$ 301,877	$ 278,595
Commercial Real Estate- Owner Occupied	375,851	371,147
Commercial Real Estate- Non-Owner Occupied	1,102,932	1,018,736
Residential Real Estate	614,304	552,781
Real Estate Construction	269,291	243,127
Farm Real Estate	24,109	24,708
Lease Financing Receivable	48,259	36,797
Consumer and Other	18,267	20,775
Total loans	2,754,890	2,546,666
Allowance for credit losses	(35,280)	(28,511)
Net loans	$ 2,719,610	$ 2,518,155

Included in Commercial & Agriculture loans above are $399 and $566 of Paycheck Protection Program (“PPP”) loans as of September 30, 2023 and December 31, 2022, respectively.

Included in total loans above are net deferred loan fees of $2,542 and $1,652 at September 30, 2023 and December 31, 2022, respectively.

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this Note 4 and Note 5 (Allowance for Credit Losses). As of September 30, 2023 and December 31, 2022, accrued interest receivable totaled $11,489 and $11,178, respectively, and is included in the accrued interest receivable line item on the Company's Consolidated Balance Sheet.

(5) Allowance for Credit Losses

As previously mentioned in Note 2 *Significant Accounting Policies*, the Company’s January 1, 2023, adoption of ASU No. 2016-13, *“Measurement of Credit Losses on Financial Instruments,”* resulted in a significant change to our methodology for estimating the ACL since December 31, 2022. As a result of this adoption, the Company recorded a $5,193 increase to the ACL as a cumulative-effect adjustment on January 1, 2023.

The following table presents, by portfolio segment, the changes in the ACL for the three- and nine-months ended September 30, 2023 and 2022.

Allowance for credit losses:

For the three months ended September 30, 2023	Beginning balance	Charge-offs	Recoveries	Provision	Ending Balance
Commercial & Agriculture	$ 5,540	$ (614)	$ 84	$ 146	$ 5,156
Commercial Real Estate:					
Owner Occupied	5,531	—	—	(50)	5,481
Non-Owner Occupied	11,646	—	9	(100)	11,555
Residential Real Estate	6,515	(1)	64	253	6,831
Real Estate Construction	3,447	—	4	288	3,739
Farm Real Estate	243	—	—	(16)	227
Lease Financing Receivables	1,947	—	—	(115)	1,832
Consumer and Other	272	(51)	6	21	248
Unallocated	8	—	—	203	211
Total	$ 35,149	$ (666)	$ 167	$ 630	$ 35,280

(Amounts in thousands, except share data)

For the three months ended September 30, 2023, the Company provided $630 to the allowance for credit losses, as compared to a provision of $300 for the three months ended September 30, 2022. The increase in the reserves was principally related to loan growth during the quarter.

Allowance for credit losses:

For the three months ended September 30, 2022	**Beginning balance**	**Charge-offs**	**Recoveries**	**Provision**	**Ending Balance**
Commercial & Agriculture	$ 2,790	$ (22)	$ 12	$ (51)	$ 2,729
Commercial Real Estate:					
Owner Occupied	4,729	—	15	182	4,926
Non-Owner Occupied	14,711	—	16	(300)	14,427
Residential Real Estate	2,859	(39)	64	152	3,036
Real Estate Construction	1,969	—	—	44	2,013
Farm Real Estate	236	—	1	14	251
Consumer and Other	130	(13)	4	21	142
Unallocated	11	—	—	238	249
Total	$ 27,435	$ (74)	$ 112	$ 300	$ 27,773

For the three months ended September 30, 2022, the Company provided $300 to the allowance for credit losses. The provision in the third quarter of 2022 reflected the Company’s strong loan growth during the quarter. Our credit quality metrics remained stable despite the ongoing headwinds of the challenging international, national, regional and local economic conditions. While COVID-19 vaccinations and improved treatments had created a level of optimism, there remained caution due to the lingering concerns over potential infection spikes. We remained cautious given the level of classified loans in the portfolio, particularly loans to borrowers in the hotel industry as well as the challenges businesses face in today’s environment. As of September 30, 2022 economic impacts related to the COVID-19 pandemic had improved somewhat, but continued concerns lingered due to the disruption of supply chains, additional employee costs, higher challenges throughout our footprint, rising inflationary pressures and the prospects of recession.

(Amounts in thousands, except share data)

During the three months ended September 30, 2022, the allowance for Commercial & Agriculture loans decreased due to a decrease in general reserves required for this type as a result of a decrease in Commercial & Agriculture loan balances during the quarter. The result was represented as a decrease in the provision. The allowance for Commercial Real Estate – Owner Occupied loans increased due to an increase in general reserves required for this type as a result of increased loan balances. The result was represented as an increase in the provision. The allowance for Commercial Real Estate – Non-Owner Occupied loans decreased due to a decrease in risk rated loans and lower loss rates, offset by an increase in general reserves required as a result of an increase in loan balances. This was represented as a decrease in the provision. The allowance for Residential Real Estate loans increased due to an increase in general reserves required for this type as a result of increased loan balances. The result was represented by an increase in the provision. The allowance for Real Estate Construction loans increased due to an increase in loan balances. This was represented as an increase in the provision. Management feels that the unallocated amount is appropriate and within the relevant range for the allowance that is reflective of the risk in the portfolio at September 30, 2022.

Allowance for credit losses:

For the nine months ended September 30, 2023	Beginning balance	CECL Adoption Day 1 Impact	Impact of Adopting ASC 326 - PCD Loans [1]	Charge-offs	Recoveries	Provision	Ending Balance
Commercial & Agriculture	$ 3,011	$ 429	$ —	$ (754)	$ 131	$ 2,339	$ 5,156
Commercial Real Estate:							
Owner Occupied	4,565	1,075	19	—	—	(178)	5,481
Non-Owner Occupied	14,138	(2,847)	—	—	25	239	11,555
Residential Real Estate	3,145	2,762	166	(12)	118	652	6,831
Real Estate Construction	2,293	1,502	—	—	13	(69)	3,739
Farm Real Estate	291	(28)	—	—	—	(36)	227
Lease Financing Receivables	429	1,743	635	—	—	(975)	1,832
Consumer and Other	98	201	77	(89)	33	(72)	248
Unallocated	541	(541)	—	—	—	211	211
Total	$ 28,511	$ 4,296	$ 897	$ (855)	$ 320	$ 2,111	$ 35,280

[1] Day 1 impact of $1,668, of adopting ASC 326-PCD loans was netted by changes in estimates of $771.

For the nine months ended September 30, 2023, the Company provided $2,111 to the allowance for credit losses, as compared to a provision of $1,000 for the nine months ended September 30, 2022. Upon adoption of CECL on January 1, 2023, we recorded an increase in the allowance for credit losses of $5,193 in the first quarter of 2023. The increase in the reserves was principally related to loan growth during the quarter.

Allowance for credit losses:

For the nine months ended September 30, 2022	Beginning balance	Charge-offs	Recoveries	Provision	Ending Balance
Commercial & Agriculture	$ 2,600	$ (22)	$ 16	$ 135	$ 2,729
Commercial Real Estate:					
Owner Occupied	4,464	—	42	420	4,926
Non-Owner Occupied	13,860	—	68	499	14,427
Residential Real Estate	2,597	(97)	140	396	3,036
Real Estate Construction	1,810	—	—	203	2,013
Farm Real Estate	287	—	5	(41)	251
Consumer and Other	176	(45)	25	(14)	142
Unallocated	847	—	—	(598)	249
Total	$ 26,641	$ (164)	$ 296	$ 1,000	$ 27,773

For the nine months ended September 30, 2022, the Company provided $1,000 to the allowance for loan losses. During the nine months ended September 30, 2022, The increase in provision was due to the strong loan growth during the first nine months of 2022. In addition, the challenges of the international, national, regional,and local economic conditions, particularly inflation, have taken greater focus from the prior economic shutdown and restrictions in response to the COVID-19 pandemic. Despite these concerns our portfolio quality has remained stable overall with decreases in criticized loans. We continue to be optimistic that asset quality will continue to remain strong despite ongoing headwinds. While we remain cautious given the impact of inflation on all of our borrowers, we are encouraged by strong loan growth. Management felt that the unallocated amount was appropriate and within the relevant range for the allowance that was reflective of the risk in the portfolio at September 30, 2022.

(Amounts in thousands, except share data)

The following tables present, by portfolio segment, the allocation of the allowance for credit losses and related loan balances as of December 31, 2022.

December 31, 2022	**Loans acquired with credit deterioration**	**Loans individually evaluated for impairment**	**Loans collectively evaluated for impairment**	**Total**
Allowance for credit losses:				
Commercial & Agriculture	$ 6	$ —	$ 3,005	$ 3,011
Commercial Real Estate:				
Owner Occupied	3	6	4,556	4,565
Non-Owner Occupied	—	—	14,138	14,138
Residential Real Estate	—	1	3,144	3,145
Real Estate Construction	—	—	2,293	2,293
Farm Real Estate	—	—	291	291
Consumer and Other	—	—	98	98
Lease Financing Receivables	—	—	429	429
Unallocated	—	—	541	541
Total	$ 9	$ 7	$ 28,495	$ 28,511
Outstanding loan balances:				
Commercial & Agriculture	$ 863.00	$ —	$ 277,732	$ 278,595
Commercial Real Estate:				
Owner Occupied	1,988	232	368,927	371,147
Non-Owner Occupied	119	—	1,018,617	1,018,736
Residential Real Estate	1,414	392	550,975	552,781
Real Estate Construction	—	—	243,127	243,127
Farm Real Estate	—	—	24,708	24,708
Lease Financing Receivables	—	—	36,797	36,797
Consumer and Other	1	—	20,774	20,775
Total	$ 4,385	$ 624	$ 2,541,657	$ 2,546,666

The following tables present credit exposures by internally assigned risk grades as of September 30, 2023 and December 31, 2022. The risk rating analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned risk grades are as follows:

- Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.
- Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.
- Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that Civista will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.
- Loss – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

(Amounts in thousands, except share data)

Based on the most recent analysis performed, the risk category of loans, by type and year of originations, at September 30, 2023, is as follows:

	Term Loans Amortized Cost Basis by Origination Year								
September 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
Commercial & Agriculture									
Pass	$ 60,223	$ 72,407	$ 46,378	$ 12,263	$ 7,418	$ 15,439	$ 79,760	$ —	$ 293,888
Special Mention	906	—	340	1,797	—	113	176	—	3,332
Substandard	408	—	62	117	283	195	3,592	—	4,657
Doubtful	—	—	—	—	—	—	—	—	—
Total Commercial & Agriculture	$ 61,537	$ 72,407	$ 46,780	$ 14,177	$ 7,701	$ 15,747	$ 83,528	$ —	$ 301,877
Commercial & Agriculture:									
Current-period gross charge-offs	$ —	$ 673	$ —	$ —	$ —	$ 81	$ —	$ —	$ 754
Commercial Real Estate - Owner Occupied									
Pass	$ 28,733	$ 81,961	$ 67,764	$ 57,827	$ 30,558	$ 96,394	$ 6,488	$ —	$ 369,725
Special Mention	529	219	745	294	3,098	287	—	—	5,172
Substandard	—	—	—	—	—	954	—	—	954
Doubtful	—	—	—	—	—	—	—	—	—
Total Commercial Real Estate - Owner Occupied	$ 29,262	$ 82,180	$ 68,509	$ 58,121	$ 33,656	$ 97,635	$ 6,488	$ —	$ 375,851
Commercial Real Estate - Owner Occupied:									
Current-period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate - Non-Owner Occupied									
Pass	$ 118,399	$ 261,880	$ 195,881	$ 138,388	$ 121,917	$ 219,770	$ 23,446	$ —	$ 1,079,681
Special Mention	—	5,816	6,227	—	-	7,373	277	—	19,693
Substandard	—	—	—	—	129	3,429	—	—	3,558
Doubtful	—	—	—	—	—	—	—	—	—
Total Commercial Real Estate - Non-Owner Occupied	$ 118,399	$ 267,696	$ 202,108	$ 138,388	$ 122,046	$ 230,572	$ 23,723	$ —	$ 1,102,932
Commercial Real Estate - Non-Owner Occupied:									
Current-period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential Real Estate									
Pass	$ 62,756	$ 106,652	$ 95,914	$ 73,032	$ 35,184	$ 80,593	$ 153,753	$ —	$ 607,884
Special Mention	—	-	224	98	—	250	55	—	627
Substandard	—	352	442	85	583	3,049	1,282	—	5,793
Doubtful	—	—	—	—	—	—	—	—	—
Total Residential Real Estate	$ 62,756	$ 107,004	$ 96,580	$ 73,215	$ 35,767	$ 83,892	$ 155,090	$ —	$ 614,304
Residential Real Estate:									

Current-period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 12	$ —	$ —	$ 12
Real Estate Construction									
Pass	$ 62,658	$ 137,265	$ 31,871	$ 15,563	$ 2,678	$ 2,708	$ 12,271	$ —	$ 265,014
Special Mention	—	1,129	926	2,019	—	—	—	—	4,074
Substandard	—	—	42	—	161	—	—	—	203
Doubtful	—	—	—	—	—	—	—	—	—
Total Real Estate Construction	$ 62,658	$ 138,394	$ 32,839	$ 17,582	$ 2,839	$ 2,708	$ 12,271	$ —	$ 269,291
Real Estate Construction:									
Current-period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Farm Real Estate									
Pass	$ 816	$ 987	$ 2,309	$ 4,552	$ 806	$ 13,295	$ 1,161	$ —	$ 23,926
Special Mention	—	—	—	—	—	183	—	—	183
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total Farm Real Estate	$ 816	$ 987	$ 2,309	$ 4,552	$ 806	$ 13,478	$ 1,161	$ —	$ 24,109
Farm Real Estate:									
Current-period charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Lease Financing Receivables									
Pass	$ 21,794	$ 14,071	$ 6,605	$ 3,754	$ 1,964	$ 18	$ —	$ —	$ 48,206
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	53	—	—	—	—	—	53
Total Lease Financing Receivables	$ 21,794	$ 14,071	$ 6,658	$ 3,754	$ 1,964	$ 18	$ —	$ —	$ 48,259
Lease Financing Receivables:									
Current-period charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer and Other									
Pass	$ 5,014	$ 4,741	$ 4,103	$ 1,875	$ 639	$ 322	$ 1,536	$ —	$ 18,230
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	14	17	—	6	—	—	37
Doubtful	—	—	—	—	—	—	—	—	—
Total Consumer and Other	$ 5,014	$ 4,741	$ 4,117	$ 1,892	$ 639	$ 328	$ 1,536	$ —	$ 18,267
Consumer and Other:									
Current-period charge-offs	$ 1	$ 27	$ 40	$ 6	$ 10	$ —	$ 5	$ —	$ 89
Total Loans	$ 362,236	$ 687,480	$ 459,900	$ 311,681	$ 205,418	$ 444,378	$ 283,797	$ —	$ 2,754,890
Total Loans:									
Current-period charge-offs	$ 1	$ 700	$ 40	$ 6	$ 10	$ 93	$ 5	$ —	$ 855

(Amounts in thousands, except share data)

Prior to the adoption of CECL, Residential Real Estate, Real Estate Construction and Consumer and Other loans are not risk-graded, except when collateral is used for a business purpose. Only those loans that have been risk rated as of December 31, 2022 are included below.

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Ending Balance
Commercial & Agriculture	$ 273,291	$ 2,558	$ 2,746	$ —	$ 278,595
Commercial Real Estate:					
Owner Occupied	367,652	734	2,761	—	371,147
Non-Owner Occupied	1,003,942	10,947	3,847	—	1,018,736
Residential Real Estate	114,021	183	5,787	—	119,991
Real Estate Construction	198,734	—	221	—	198,955
Farm Real Estate	24,283	379	46	—	24,708
Lease Financing Receivables	36,223	—	401	173	36,797
Consumer and Other	839	—	163	—	1,002
Total	$ 2,018,985	$ 14,801	$ 15,972	$ 173	$ 2,049,931

The following tables present performing and nonperforming loans based solely on payment activity for the period ended December 31, 2022 that were not assigned an internal risk grade.

December 31, 2022	Residential Real Estate	Real Estate Construction	Consumer and Other	Total
Performing	$ 432,790	$ 44,172	$ 19,773	$ 496,735
Nonperforming	—	—	—	—
Total	$ 432,790	$ 44,172	$ 19,773	$ 496,735

The following tables include an aging analysis of the recorded investment of past due loans outstanding as of September 30, 2023 and December 31, 2022.

September 30, 2023	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due 90 Days and Accruing
Commercial & Agriculture	$ 834	$ 1,284	$ 1,469	$ 3,587	$ 298,290	$ 301,877	$ —
Commercial Real Estate:							
Owner Occupied	87	—	34	121	375,730	375,851	—
Non-Owner Occupied	—	—	—	—	1,102,932	1,102,932	—
Residential Real Estate	731	791	1,812	3,334	610,970	614,304	—
Real Estate Construction	—	—	—	—	269,291	269,291	—
Farm Real Estate	—	—	—	—	24,109	24,109	—
Lease Financing Receivables	237	52	653	942	47,317	48,259	—
Consumer and Other	156	59	9	224	18,043	18,267	—
Total	$ 2,045	$ 2,186	$ 3,977	$ 8,208	$ 2,746,682	$ 2,754,890	$ —

(Amounts in thousands, except share data)

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Purchased Credit-Impaired Loans	Total Loans	Past Due 90 Days and Accruing
Commercial & Agriculture	$ 247	$ 78	$ 534	$ 859	$ 276,873	$ 863	$ 278,595	$ —
Commercial Real Estate:								
Owner Occupied	21	13	76	110	369,049	1,988	371,147	—
Non-Owner Occupied	—	—	1,164	1,164	1,017,453	119	1,018,736	—
Residential Real Estate	3,133	857	1,107	5,097	546,270	1,414	552,781	—
Real Estate Construction	—	—	219	219	242,908	—	243,127	—
Farm Real Estate	7	—	—	7	24,701	—	24,708	—
Lease Financing Receivables	1,040	—	341	1,381	35,416	—	36,797	—
Consumer and Other	293	49	74	416	20,358	1	20,775	—
Total	$ 4,741	$ 997	$ 3,515	$ 9,253	$ 2,533,028	$ 4,385	$ 2,546,666	$ —

The following table presents loans on nonaccrual status as of September 30, 2023.

September 30, 2023	Nonaccrual loans with a related ACL	Nonaccrual loans without a related ACL	Total Nonaccrual loans	Interest Income Recognized
Commercial & Agriculture	$ 362	$ 1,294	$ 1,656	$ —
Commercial Real Estate:				
Owner Occupied	—	270	270	3
Non-Owner Occupied	306	899	1,205	—
Residential Real Estate	—	4,391	4,391	13
Real Estate Construction	—	203	203	—
Farm Real Estate	—	—	—	—
Lease Financing Receivables	151	794	945	—
Consumer and Other	—	43	43	—
Total	$ 819	$ 7,894	$ 8,713	$ 16

The following table presents loans on nonaccrual status as of December 31, 2022, excluding PCI loans.

	December 31, 2022
Commercial & Agriculture	$ 774
Commercial Real Estate:	
Owner Occupied	386
Non-Owner Occupied	1,109
Residential Real Estate	3,926
Real Estate Construction	221
Farm Real Estate	—
Lease Financing Receivables	—
Consumer and Other	91
Total	$ 6,507

Nonaccrual Loans: Loans are considered for nonaccrual status upon reaching 90 days delinquency, unless the loan is well secured and in the process of collection, although the Company may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income. Payments received on nonaccrual loans are applied to the unpaid principal balance. A loan may be returned to accruing status only if one of two conditions are met: the loan is well-secured and none of the principal and interest has been past due for a minimum of 90 days or the principal and interest payments are reasonably assured and a sustained period of performance has occurred, generally six months.

(Amounts in thousands, except share data)

Modifications to Borrowers Experiencing Financial Difficulty: From time to time, the Company may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of principal forgiveness, interest rate reduction, term extension, other-than-significant payment delay or a combination thereof, among other things. During the nine months ended September 30, 2023, there were no modifications of loans to borrowers experiencing financial difficulty.

Individually Evaluated Loans: Larger (greater than $350) Commercial & Agricultural and Commercial Real Estate loan relationships, and Residential Real Estate and Consumer loans that are part of a larger relationship are tested for impairment on a quarterly basis. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related allowance for credit losses allocated to these loans.

September 30, 2023	Real Estate	Other	Allowance for Credit Losses
Commercial & Agriculture	$ —	$ 4,846	$ 408
Commercial Real Estate:			
Owner Occupied	—	—	—
Non-Owner Occupied	1,205	—	306
Residential Real Estate	—	—	—
Real Estate Construction	—	—	—
Farm Real Estate	—	—	—
Lease Financing Receivables	—	525	150
Consumer and Other	—	—	—
Total	$ 1,205	$ 5,371	$ 864

Collateral-dependent loans consist primarily of Residential Real Estate, Commercial Real Estate and Commercial and Agricultural loans. These loans are individually evaluated when foreclosure is probable or when the repayment of the loan is expected to be provided substantially through the operation or sale of the underlying collateral. In the case of Commercial and Agricultural loans secured by equipment, the fair value of the collateral is estimated by third-party valuation experts. Loan balances are charged down to the underlying collateral value when they are deemed uncollectible. Note that the Company did not elect to use the collateral maintenance agreement practical expedient available under CECL.

(Amounts in thousands, except share data)

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of December 31, 2022, excluding PCI loans.

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial & Agriculture	$ —	$ —		$ 86	$ 3
Commercial Real Estate:					
Owner Occupied	82	82		192	22
Non-Owner Occupied	—	—		35	1
Residential Real Estate	385	410		595	33
Farm Real Estate	—	—		381	14
Total	467	492		1,289	73
With an allowance recorded:					
Commercial & Agriculture	—	—	$ —	—	—
Commercial Real Estate:					
Owner Occupied	150	150	6	214	—
Residential Real Estate	7	11	1	19	—
Lease Financing Receivables	—	—	—	—	—
Consumer and Other	—	—	—	—	—
Total	157	161	7	233	—
Total:					
Commercial & Agriculture	—	—	—	86	3
Commercial Real Estate:					
Owner Occupied	232	232	6	406	22
Non-Owner Occupied	—	—	—	35	1
Residential Real Estate	392	421	1	614	33
Lease Financing Receivables	—	—	—	381	14
Consumer and Other	—	—	—	—	—
Total	$ 624	$ 653	$ 7	$ 1,522	$ 73

The following tables include the average recorded investment and interest income recognized for impaired financing receivables for the three and nine-month periods ended September 30, 2022.

	September 30, 2022	
For the three months ended	Average Recorded Investment	Interest Income Recognized
Commercial & Agriculture	$ 172	$ —
Commercial Real Estate—Owner Occupied	504	3
Commercial Real Estate—Non-Owner Occupied	70	—
Residential Real Estate	503	9
Real Estate Construction	—	—
Farm Real Estate	247	2
Lease Financing Receivables	—	—
Consumer and Other	—	—
Total	$ 1,496	$ 14

	September 30, 2022	
For the nine months ended	**Average Recorded Investment**	**Interest Income Recognized**
Commercial & Agriculture	$ 86	$ —
Commercial Real Estate—Owner Occupied	349	10
Commercial Real Estate—Non-Owner Occupied	35	—
Residential Real Estate	516	19
Real Estate Construction	—	—
Farm Real Estate	381	14
Lease Financing Receivables	—	—
Consumer and Other	—	—
Total	$ 1,367	$ 43

Changes in the accretable yield for PCI loans as of September 30, 2022 were as follows, since acquisition:

	For the Three-Month Period Ended September 30, 2022 (In Thousands)
Balance at beginning of period	$ 216
Acquisition of PCI loans	—
Accretion	(7)
Transfer from non-accretable to accretable	7
Balance at end of period	$ 216

The Company has acquired loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Upon the Company's adoption of ASU 2016-13, remaining credit-related discount on these assets were re-classified to the ACL. The Company elected the prospective transition approach and all loans previously considered PCI are now classified as PCD. The remaining non-credit discount will continue to be accreted into income over the remaining lives of the assets. The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 as of December 31, 2022:

	At December 31, 2022 Acquired Loans with Specific Evidence of Deterioration of Credit Quality (ASC 310-30) (In Thousands)
Outstanding balance	$ 5,220
Carrying amount	4,386

There was no allowance for loan losses recorded for acquired loans with or without specific evidence of deterioration in credit quality as of December 31, 2022.

Foreclosed Assets Held For Sale

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in Other assets on the Consolidated Balance Sheet. As of September 30, 2023 and December 31, 2022 there were no foreclosed assets included in Other assets.

(Amounts in thousands, except share data)

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk from a contractual obligation to extend credit. The allowance for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit loss expense recognized within other non-interest expense on the Consolidated Statements of Operations. The estimated credit loss includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate of expected credit loss is based on the historical loss rate for the loan class in which the loan commitments would be classified as if funded.

The following table lists the allowance for credit losses on off-balance sheet credit exposures as of September 30, 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Beginning of Period	$ 3,851	—	—	—
CECL adoption adjustments	—	—	3,386	—
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Provision	130	—	595	—
End of Period	$ 3,981	—	$ 3,981	—

(6) Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax for the three-month periods ended September 30, 2023 and September 30, 2022.

	For the Three-Month Period Ended September 30, 2023(a)			For the Three-Month Period Ended September 30, 2022(a)		
	Unrealized Gains and (Losses) on Available-for-Sale Securities (a)	Defined Benefit Pension Items (a)	Total (a)	Unrealized Gains and (Losses) on Available-for-Sale Securities (a)	Defined Benefit Pension Items (a)	Total (a)
Beginning balance	$ (50,496)	$ (5,274)	$ (55,770)	$ (40,497)	$ (5,745)	$ (46,242)
Other comprehensive loss before reclassifications	(23,692)	—	(23,692)	(23,626)	—	(23,626)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	(4)	54	50
Net current-period other comprehensive income (loss)	(23,692)	—	(23,692)	(23,630)	54	(23,576)
Ending balance	$ (74,188)	$ (5,274)	$ (79,462)	$ (64,127)	$ (5,691)	$ (69,818)

(a)Amounts in parentheses indicate debits on the Consolidated Balance Sheets.

(Amounts in thousands, except share data)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three-month periods ended September 30, 2023 and September 30, 2022.

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a) For the Three months ended September 30, 2023	For the Three months ended September 30, 2022	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale securities	$ —	$ 4	Net gain on sale of securities
Tax effect	—	—	Income tax expense
	—	4	
Amortization of defined benefit pension items			
Actuarial gains/(losses) (b)	—	(69)	Other operating expenses
Tax effect	—	15	Income tax expense
	—	(54)	
Total reclassifications for the period	$ —	$ (50)	

(a)Amounts in parentheses indicate expenses/losses and other amounts indicate income/benefit.

(b)These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax for the nine month periods ended September 30, 2023 and September 30, 2022.

	For the Nine-Month Period Ended September 30, 2023(a)			For the Nine-Month Period Ended September 30, 2022(a)		
	Unrealized Gains and (Losses) on Available-for-Sale Securities (a)	Defined Benefit Pension Items (a)	Total (a)	Unrealized Gains and (Losses) on Available-for-Sale Securities (a)	Defined Benefit Pension Items (a)	Total (a)
Beginning balance	$ (52,771)	$ (5,274)	$ (58,045)	$ 14,675	$ (5,855)	$ 8,820
Other comprehensive loss before reclassifications	(21,417)	—	(21,417)	(78,794)	—	(78,794)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	(8)	164	156
Net current-period other comprehensive income (loss)	(21,417)	—	(21,417)	(78,802)	164	(78,638)
Ending balance	$ (74,188)	$ (5,274)	$ (79,462)	$ (64,127)	$ (5,691)	$ (69,818)

(a) Amounts in parentheses indicate debits on the Consolidated Balance Sheets

(Amounts in thousands, except share data)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) for the nine month periods ended September 30, 2023 and September 30, 2022.

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a) For the Nine months ended September 30, 2023	For the Nine months ended September 30, 2022	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale securities	$ —	$ 10	Net gain on sale of securities
Tax effect	—	(2)	Income tax expense
	—	8	
Amortization of defined benefit pension items			
Actuarial gains/(losses) (b)	—	(208)	Other operating expenses
Tax effect	—	44	Income tax expense
	—	(164)	
Total reclassifications for the period	$ —	$ (156)	

(a) Amounts in parentheses indicate expenses/losses and other amounts indicate income/benefit.
(b) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

(7) Goodwill and Intangible Assets

The carrying amount of goodwill has decreased $617 since December 31, 2022 as a result of adjustments to estimated fair values of the assets acquired and liabilities assumed since the date of acquisition. The balance of goodwill was $125,078 at September 30, 2023 and $125,695 at December 31, 2022.

Acquired intangible assets, other than goodwill, as of September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Core deposit intangibles	$ 12,952	$ 6,078	$ 6,874	$ 12,953	$ 4,883	$ 8,070
Total amortized intangible assets	$ 12,952	$ 6,078	$ 6,874	$ 12,953	$ 4,883	$ 8,070

Aggregate core deposit intangible amortization expense was $398, and $456, for the three-months ended September 30, 2023 and 2022, respectively. Aggregate core deposit intangible amortization expense was $1,195 and $890 for the nine-months ended September 30, 2023 and September 30, 2022, respectively.

(Amounts in thousands, except share data)

Activity for mortgage servicing rights (MSRs) and the related valuation allowance for the three- and nine- months ended September 30, 2023 and September 30, 2022 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Loan Servicing Rights:				
Balance at Beginning of Period	$ 3,056	$ 2,664	$ 2,689	$ 2,642
Additions	76	91	600	317
Additions from acquisition	—	419	—	419
Disposals	—	—	—	—
Amortized to expense	(86)	(95)	(243)	(299)
Other charges	—	—	—	—
Change in valuation allowance	—	—	—	—
Balance at End of Period	$ 3,046	$ 3,079	$ 3,046	$ 3,079
Valuation allowance:				
Balance at Beginning of Period	$ —	$ —	$ —	$ —
Additions expensed	—	—	—	—
Reductions credited to operations	—	—	—	—
Direct write-offs	—	—	—	—
Balance at End of Period	$ —	$ —	$ —	$ —

Estimated amortization expense for each of the next five years and thereafter is as follows:

	MSRs	Core deposit intangibles	Total
2023	$ 43	$ 384	$ 427
2024	171	1,489	1,660
2025	170	1,312	1,482
2026	168	1,193	1,361
2027	163	1,071	1,234
Thereafter	2,331	1,425	3,756
	$ 3,046	$ 6,874	$ 9,920

(Amounts in thousands, except share data)

(8) Short-Term and Other Borrowings

Short-term and other borrowings, which consist of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings, are summarized as follows:

	At September 30, 2023		At December 31, 2022	
	Federal Funds Purchased	Short-term Borrowings	Federal Funds Purchased	Short-term Borrowings
Outstanding balance	$ —	$ 431,500	$ —	$ 393,700
Interest rate on balance	—	5.45 %	—	4.24 %

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023 Federal Funds Purchased	2023 Short-term Borrowings	2022 Federal Funds Purchased	2022 Short-term Borrowings	2023 Federal Funds Purchased	2023 Short-term Borrowings	2022 Federal Funds Purchased	2022 Short-term Borrowings
Maximum indebtedness	$ —	$ 431,500	$ —	$ 56,000	$ —	$ 540,000	$ —	$ 56,000
Average balance	—	233,547	—	6,713	—	282,214	—	2,380
Average rate paid	—	5.51 %	—	2.84 %	—	5.03 %	—	2.75 %

Average balance during the period represents daily averages. Average rate paid represents interest expense divided by the related average balances.

Short-term borrowings and federal funds purchased transactions can range from overnight to six months in maturity. The average maturity was one day at September 30, 2023.

Securities sold under agreements to repurchase are used to facilitate the needs of our customers as well as to facilitate our short-term funding needs. Securities sold under repurchase agreements are carried at the amount of cash received in association with the agreement. We continuously monitor the collateral levels and may be required, from time to time, to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

The following table presents detail regarding the securities pledged as collateral under repurchase agreements as of September 30, 2023 and December 31, 2022. All of the repurchase agreements are overnight agreements. As of July 2023, the Company no longer offers repurchase agreements.

	September 30, 2023	December 31, 2022
Securities pledged for repurchase agreements:		
U.S. Treasury securities	$ —	$ 25,143
Obligations of U.S. government agencies	—	—
Total securities pledged	$ —	$ 25,143
Gross amount of recognized liabilities for repurchase agreements	$ —	$ 25,143
Amounts related to agreements not included in offsetting disclosures above	$ —	$ —

(Amounts in thousands, except share data)

(9) Earnings per Common Share

The Company has granted restricted stock awards with non-forfeitable rights (with respect to dividends), which are considered participating securities. Accordingly, earnings per common share is computed using the two-class method as required by ASC 260-10-45. Basic earnings per common share are computed as net income available to common shareholders divided by the weighted average number of common shares outstanding during the period, which excludes the participating securities. Diluted earnings per common share include the dilutive effect, if any, of additional potential common shares issuable under the Company's equity incentive plan, computed using the treasury stock method. The Company had no dilutive securities for the three-months ended September 30, 2023 and 2022.

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Basic				
Net income	$ 10,387	$ 11,112	$ 33,309	$ 27,279
Less allocation of earnings and dividends to participating securities	388	52	1,220	123
Net income available to common shareholders—basic	$ 9,999	$ 11,060	$ 32,089	$ 27,156
Weighted average common shares outstanding	15,735,007	15,394,898	15,747,648	14,974,862
Less average participating securities	588,715	71,604	576,902	67,323
Weighted average number of shares outstanding used in the calculation of basic earnings per common share	15,146,292	15,323,294	15,170,746	14,907,539
Earnings per common share:				
Basic	$ 0.66	$ 0.72	$ 2.12	$ 1.82
Diluted	0.66	0.72	2.12	1.82

(10) Commitments, Contingencies and Off-Balance Sheet Risk

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customers' financing needs. These are agreements to provide credit or to support the credit of others, as long as the conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk of 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 commitment. The contractual amounts of financial instruments with off-balance-sheet risk were as follows at September 30, 2023 and December 31, 2022:

	Contract Amount			
	September 30, 2023		December 31, 2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitment to extend credit:				
Lines of credit and construction loans	$ 62,910	$ 692,184	$ 42,184	$ 599,185
Overdraft protection	10	45,606	10	45,182
Letters of credit	875	424	960	630
	$ 63,795	$ 738,214	$ 43,154	$ 644,997

Commitments to make loans are generally made for a period of one year or less. Fixed rate loan commitments included in the table above had interest rates ranging from 2.66% to 14.00% at September 30, 2023 and from 3.25% to 8.00% at December 31, 2022. Maturities extend up to 30 years.

Civista is required to maintain certain reserve balances on hand in accordance with the Federal Reserve Board requirements. No reserve balance was maintained, or required to be maintained, in accordance with such requirements at September 30, 2023 and December 31, 2022.

(Amounts in thousands, except share data)

(11) Pension Information

The Company sponsors a pension plan which is a noncontributory defined benefit retirement plan. Annual payments, subject to the maximum amount deductible for federal income tax purposes, are made to a pension trust fund. In 2006, the Company amended the pension plan to provide that no employee could be added as a participant to the pension plan after December 31, 2006. In 2014, the Company amended the pension plan again to provide that no additional benefits would accrue beyond April 30, 2014.

Net periodic pension cost was as follows:

	Three months ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Service cost	$ —	$ —	$ —	$ —
Interest cost	125	103	376	310
Expected return on plan assets	(132)	(144)	(397)	(432)
Other components	—	69	—	208
Net periodic pension cost	$ (7)	$ 28	$ (21)	$ 86

The Company does not expect to make any contribution to its pension plan in 2023. The Company made no contribution to its pension plan in 2022.

(12) Equity Incentive Plan

At the Company’s 2014 annual meeting, the shareholders adopted the Company’s 2014 Incentive Plan (“2014 Incentive Plan”). The 2014 Incentive Plan authorizes the Company to grant options, stock awards, stock units and other awards for up to 375,000 common shares of the Company. There were 60,049 common shares available for future grants under this plan at September 30, 2023.

No options were granted under the 2014 Incentive Plan during the nine- months ended September 30, 2023 and 2022.

Each year, the Board of Directors has awarded restricted common shares to senior officers of the Company. The restricted shares vest ratably over a three-year or five-year period following the grant date. The product of the number of restricted shares granted and the grant date market price of the Company’s common shares determines the fair value of restricted shares awarded under the Company’s 2014 Incentive Plan. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period for the entire award.

The Company classifies share-based compensation for employees with “Compensation expense” in the Consolidated Statements of Operations.

The following is a summary of the Company’s outstanding restricted common shares and changes therein for the three- and nine-month periods ended September 30, 2023:

	Three months ended September 30, 2023		Nine Months Ended September 30, 2023	
	Number of Restricted Shares	Weighted Average Grant Date Fair Value	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	88,422	$ 21.98	70,096	$ 21.88
Granted	—	—	47,536	21.85
Vested	—	—	(27,470)	21.52
Forfeited	—	—	(1,740)	21.74
Nonvested at end of period	88,422	$ 21.98	88,422	$ 21.98

(Amounts in thousands, except share data)

The following is a summary of the status of the Company's outstanding restricted common shares as of September 30, 2023:

	At September 30, 2023		
Date of Award	Shares	Remaining Expense	Remaining Vesting Period (Years)
March 14, 2019	1,924	$ 9	0.25
March 14, 2020	4,265	51	1.25
March 3, 2021	7,776	103	2.25
March 3, 2021	6,793	33	0.25
March 3, 2022	9,554	177	3.25
March 3, 2022	11,261	160	1.25
March 14, 2023	17,103	296	4.25
March 14, 2023	29,746	466	2.25
	88,422	$ 1,295	2.37

The Company recorded $191 and $153 of share-based compensation expense during the three months ended September 30, 2023 and 2022, respectively. At September 30, 2023, the total compensation cost related to unvested awards not yet recognized was $1,296, which was expected to be recognized over the weighted average remaining life of the grants of 2.37 years.

(13) Fair Value Measurement

The Company uses a fair value hierarchy to measure fair value. This hierarchy describes three levels of inputs that may be used to measure fair value: Level 1: Quoted prices for identical assets in active markets that are identifiable on the measurement date; Level 2: Significant other observable inputs, such as quoted prices for similar assets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data; and Level 3: Significant unobservable inputs that reflect the Company's own view about the assumptions that market participants would use in pricing an asset.

Debt securities: The fair values of securities available-for-sale are determined by 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 inputs).

Equity securities: The Company's equity securities are not actively traded in an open market. The fair value of these equity securities available-for-sale not actively traded in an open market is determined by using market data inputs for similar securities that are observable (Level 2 inputs).

The fair value of the swap asset/liability: The fair value of the swap asset and liability is based on an external derivative model using data inputs based on similar transactions as of the valuation date and classified Level 2. The changes in fair value of these assets/liabilities had no impact on net income or comprehensive income.

Mortgage servicing rights: Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The Company stratifies its mortgage servicing portfolio on the basis of loan type. The assumptions used in the discounted cash flow model are those that the Company believes market participants would use in estimating future net servicing income. Significant assumptions in the valuation of mortgage servicing rights include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. Mortgage servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

(Amounts in thousands, except share data)

Assets and liabilities measured at fair value are summarized in the tables below.

	Fair Value Measurements at September 30, 2023 Using:		
Assets:	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets measured at fair value on a recurring basis:			
Securities available-for-sale			
U.S. Treasury securities and obligations of U.S. Government agencies	$ —	$ 71,295	$ —
Obligations of states and political subdivisions	—	310,535	—
Mortgage-backed securities in government sponsored entities	—	211,657	—
Total securities available-for-sale	—	593,487	—
Equity securities	—	2,021	—
Swap asset	—	19,784	—
Liabilities measured at fair value on a recurring basis:			
Swap liability	$ —	$ 19,784	$ —
Assets measured at fair value on a nonrecurring basis:			
Mortgage servicing rights	$ —	$ —	$ 3,046

	Fair Value Measurements at December 31, 2022 Using:		
Assets:	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets measured at fair value on a recurring basis:			
Securities available-for-sale			
U.S. Treasury securities and obligations of U.S. Government agencies	$ —	$ 61,029	$ —
Obligations of states and political subdivisions	—	317,248	—
Mortgage-backed securities in government sponsored entities	—	237,125	—
Total securities available-for-sale	—	615,402	—
Equity securities	—	2,190	—
Swap asset	—	16,579	—
Liabilities measured at fair value on a recurring basis:			
Swap liability	—	16,579	—
Assets measured at fair value on a nonrecurring basis:			
Mortgage servicing rights	$ —	$ —	$ 2,689

The following tables present quantitative information about the Level 3 significant unobservable inputs for assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2023 and December 31, 2022.

	Quantitative Information about Level 3 Fair Value Measurements				
September 30, 2023	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**	**Weighted Average**
Mortgage Servicing Rights	$ 3,046	Discounted Cash Flow	Constant Prepayment Rate	4.3% - 10.4%	6%
			Discount Rate	12%	12%

	Quantitative Information about Level 3 Fair Value Measurements				
December 31, 2022	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**	**Weighted Average**
Mortgage Servicing Rights	$ 2,689	Discounted Cash Flow	Constant Prepayment Rate	5% - 20%	7%
			Discount Rate	12%	12%

(Amounts in thousands, except share data)

The carrying amount and fair values of financial instruments not measured at fair value on a recurring or nonrecurring basis at September 30, 2023 were as follows:

September 30, 2023	**Carrying Amount**	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and due from financial institutions	$ 50,316	$ 50,316	$ 50,316	$ —	$ —
Other securities	34,224	34,224	34,224	—	—
Loans, held for sale	1,589	1,589	1,589	—	—
Loans, net of allowance	2,719,610	2,627,715	—	—	2,627,715
Bank owned life insurance	54,053	54,053	54,053	—	—
Accrued interest receivable	11,489	11,489	11,489	—	—
Financial Liabilities:					
Nonmaturing deposits	2,139,757	2,139,782	2,139,782	—	—
Time deposits	655,986	653,827	—	—	653,827
Short-term FHLB advances	431,500	430,534	430,534	—	—
Long-term FHLB advances	2,573	2,543	—	—	2,543
Other borrowings	10,964	10,964	—	—	10,964
Securities sold under agreement to repurchase	—	—	—	—	—
Subordinated debentures	103,921	99,264	—	—	99,264
Accrued interest payable	—	—	—	—	—

The carrying amount and fair values of financial instruments not measured at fair value on a recurring or nonrecurring basis at December 31, 2022 were as follows:

December 31, 2022	**Carrying Amount**	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and due from financial institutions	$ 43,361	$ 43,361	$ 43,361	$ —	$ —
Other securities	33,585	33,585	33,585	—	—
Loans, held for sale	683	698	698	—	—
Loans, net of allowance	2,518,155	2,427,291	—	—	2,427,291
Bank owned life insurance	53,543	53,543	53,543	—	—
Accrued interest receivable	11,178	11,178	11,178	—	—
Financial Liabilities:					
Nonmaturing deposits	2,300,215	2,300,215	2,300,215	—	—
Time deposits	319,769	318,886	—	—	318,886
Short-term FHLB advances	393,700	393,247	393,247	—	—
Long-term FHLB advances	3,578	3,534	—	—	3,534
Securities sold under agreement to repurchase	25,143	25,143	25,143	—	—
Subordinated debentures	103,799	98,513	—	—	98,513
Other borrowings	15,516	15,806	—	—	15,806
Accrued interest payable	668	668	668	—	—

An immaterial revision has been made to the fair market value of loans for the period ended December 31, 2022. This revision did not have a significant impact on the financial statement line item affected or total assets, equity or net income.

(Amounts in thousands, except share data)

(14) Derivatives

To accommodate customer need and to support the Company's asset/liability positioning, on occasion we enter into interest rate swaps with a customer and a bank counterparty. The interest rate swaps are free-standing derivatives and are recorded at fair value. The Company enters into a floating rate loan and a fixed rate swap with our customer. Simultaneously, the Company enters into an offsetting fixed rate swap with a bank counterparty. In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay a bank counterparty the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These transactions allow the Company's customer to effectively convert variable rate loans to fixed rate loans. Since the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts offset each other and do not significantly impact the Company's results of operations. None of the Company's derivatives are designated as hedging instruments.

The Company presents derivative positions net on the balance sheet for customers and financial institution counterparty positions subject to master netting arrangements. The following table reflects the derivatives recorded on the balance sheet:

	September 30, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Interest rate swaps with loan customers in an asset position	$ 2,250	$ 11	$ 6,980	$ 269
Counterparty positions with financial institutions in an asset position	207,225	19,773	212,570	16,310
Total included in other assets		$ 19,784		$ 16,579
Included in accrued expenses and other liabilities:				
Interest rate swaps with loan customers in a liability position	$ 204,975	$ 19,784	$ 205,590	$ 16,579
Counterparty positions with financial institutions in a liability position	—	—	—	—
Total included in accrued expenses and other liabilities		$ 19,784		$ 16,579
Gross notional positions with customers	$ 207,225		$ 212,570	
Gross notional positions with financial institution counterparties	$ 207,225		$ 212,570	

The presentation for derivatives for the current and prior periods was revised to present derivative positions net for customer positions. Fair value of swap assets and liabilities for the prior period was not impacted.

The effect of swap fair value changes on the Consolidated Statement of Operations are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		September 30, 2023	September 30, 2022
Interest rate swaps related to customer loans	Other income	$ —	$ —
Total		$ —	$ —

The Company monitors and controls all derivative products with a comprehensive Board of Director approved commercial loan swap policy. All interest rate swap transactions must be approved in advance by the Lenders Loan Committee or the Directors Loan Committee of the Board of Directors. The Company classifies changes in fair value of derivatives in other noninterest income in the Consolidated Statements of Operation.

At September 30, 2023 and December 31, 2022, the Company did not have any cash or securities pledged for collateral on its interest rate swaps with third party financial institutions. Cash pledged for collateral on interest rate swaps is classified as restricted cash on the Consolidated Balance Sheet.

(15) Qualified Affordable Housing Project Investments

The Company invests in certain qualified affordable housing projects. At September 30, 2023 and December 31, 2022, the balance of the Company's investments in qualified affordable housing projects was $13,401 and $14,149, respectively. These balances are reflected in the Other assets line on the Consolidated Balance Sheet. The unfunded commitments related to the investments in qualified affordable housing projects totaled $3,913 and $5,634 at September 30, 2023 and December 31, 2022, respectively. These balances are reflected in the Accrued expenses and other liabilities line on the Consolidated Balance Sheet.

During the three months ended September 30, 2023 and 2022, the Company recognized amortization expense with respect to its investments in qualified affordable housing projects of $252 and $239, respectively, offset by tax credits and other benefits from its investments in affordable housing tax credits of $426 and $396, respectively. During the three- and nine-months ended September 30, 2023 and 2022, the Company did not incur any impairment losses related to its investments in qualified affordable housing projects.

(16) Revenue Recognition

The Company accounts for revenues from contracts with customers under ASC 606, *Revenue from Contracts with Customers*. Revenue associated with financial instruments, including revenue from loans and securities, are outside the scope of ASC 606 and accounted for under other existing GAAP. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the guidance. Noninterest revenue streams in-scope of ASC 606 are discussed below.

Service Charges

Service charges consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, and other deposit account related fees. The Company’s performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, the Company’s performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers’ accounts.

ATM/Interchange Fees

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company’s debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. The Company’s performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Wealth Management Fees

Wealth management fees are primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company’s performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received in the following month through a direct charge to customers’ accounts. The Company does not earn performance-based incentives. The Company’s performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

(Amounts in thousands, except share data)

Tax Refund Processing Fees

The Company facilitates the payment of federal and state income tax refunds in partnership with a third-party vendor. Refund Transfers ("RTs") are fee-based products whereby a tax refund is issued to the taxpayer after the Company has received the refund from the federal or state government. As part of this agreement the Company earns fee income, the majority of which is received in the first quarter of the year. The Company's fee income revenue is recognized based on the estimated percent of business completed by each date.

Other

Other noninterest income consists of other recurring revenue streams such as check order fees, wire transfer fees, safety deposit box rental fees, item processing fees and other miscellaneous revenue streams. Check order income mainly represents fees charged to customers for checks. Wire transfer fees represent revenue from processing wire transfers. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Item processing fee income represents fees charged to other financial institutions for processing their transactions. Payment is typically received in the following month.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three- and nine-months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Noninterest Income				
In-scope of Topic 606:				
Service charges	$ 1,853	$ 1,885	$ 5,457	$ 5,004
ATM/Interchange fees	1,424	1,394	4,227	3,990
Wealth management fees	1,197	1,208	3,570	3,713
Tax refund processing fees	—	—	2,375	2,375
Other	646	274	3,500	574
Noninterest Income (in-scope of Topic 606)	5,120	4,761	19,129	15,656
Noninterest Income (out-of-scope of Topic 606)	3,005	973	9,213	3,356
Total Noninterest Income	$ 8,125	$ 5,734	$ 28,342	$ 19,012

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion focuses on the consolidated financial condition of the Company at September 30, 2023 compared to December 31, 2022, and the consolidated results of operations for the three- and nine-month periods ended September 30, 2023, compared to the same periods in 2022. This discussion should be read in conjunction with the Consolidated Financial Statements and footnotes included in this Form 10-Q.

Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to such matters as the Company's financial condition, anticipated operating results, cash flows, business line results, credit quality expectations, prospects for new lines of business, economic trends (including interest rates) and similar matters. Forward-looking statements reflect our expectations, estimates or projections concerning future results or events. These statements are generally identified by the use of forward-looking words or phrases such as "believe," "belief," "expect," "anticipate," "may," "could," "intend," "intent," "estimate," "plan," "foresee," "likely," "will," "should" or other similar words or phrases. Forward-looking statements are not guarantees of performance and are inherently subject to known and unknown risks, uncertainties and assumptions that are difficult to predict and could cause our actual results, performance or achievements to differ materially from those expressed in or implied by the forward-looking statements. Factors that could cause actual results, performance or achievements to differ from those discussed in the forward-looking statements include, but are not limited to:

- current and future economic and financial market conditions, including the effects of inflation, recession, unemployment, changes in interest rates, fiscal and monetary policy, an increasing federal government budget deficit, the failure of the federal government to raise the federal debt ceiling and/or possible future U.S. government shutdowns over budget disagreements, slowing gross domestic product, tariffs, a U.S. withdrawal from or renegotiation of trade agreements, trade wars, and other factors beyond our control, any of which may result in adverse impacts on our deposit levels and composition, the quality of investment securities available for purchase, demand for loans, the ability of our borrowers to repay their loans, and the value of the collateral securing loans made by Civista;
- recent and future bank failures may reduce customer confidence, affect sources of funding and liquidity, increase regulatory requirements and costs, adversely affect financial markets and/or have a negative reputational impact on the banking industry as a whole, and of which could adversely affect the Company's business, financial condition and results of operations;
- adverse changes in the real estate market, which could cause increases in delinquencies and non-performing assets, including additional loan charge-offs, and could depress our income, earnings and capital;
- changes in interest rates resulting from national and local economic conditions and the policies of regulatory authorities, including monetary policies of the Board of Governors of the Federal Reserve System, which may adversely affect interest rates, interest margins, loan demand and interest rate sensitivity;
- the transition away from LIBOR as a reference rate for financial contracts, which could negatively impact our income and expenses and the value of various financial contracts;
- continuing economic impacts and recovery from the COVID-19 pandemic, or the outbreak of another highly infectious or contagious disease, which could adversely affect our business, financial condition and results of operations;
- operational risks, reputational risks, legal and compliance risks, and other risks related to potential fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, or failures, disruptions or breaches in security of our systems, including those resulting from computer viruses or cyber-attacks;
- our ability to secure sensitive or confidential client information against unauthorized disclosure or access through computer systems and telecommunication networks, including those of our third-party vendors and other service providers, which may prove inadequate;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors and other service providers, resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems, including as a result of cyber-attacks;
- competitive pressures and factors among financial services organizations could increase significantly, including product and pricing pressures, changes to third-party relationships and our ability to recruit and retain qualified management and banking personnel;
- unexpected losses of services of our key management personnel, or the inability to recruit and retain qualified personnel in the future;
- the lack of assurances regarding the future revenues of our tax refund program;

- •risks inherent in pursuing strategic growth initiatives, including integration and other risks involved in past, pending and possible future acquisitions, including, without limitation, the recently completed acquisitions of Comunibanc Corp. and VFG;
- •uncertainty regarding the nature, timing, cost and effect of legislative or regulatory changes in the banking industry or otherwise affecting the Company, including major reform of the regulatory oversight structure of the financial services industry and changes in laws and regulations concerning taxes, FDIC insurance premium levels, pensions, bankruptcy, consumer protection, rent regulation and housing, financial accounting and reporting, environmental protection, insurance, bank products and services, bank and bank holding company capital and liquidity standards, fiduciary standards, securities and other aspects of the financial services industry;
- •changes in federal, state and/or local tax laws;
- •the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (FASB), the SEC, the Public Company Accounting Oversight Board and other regulatory agencies, may adversely affect our reported financial condition or results of operations;
- •litigation and regulatory compliance exposure, including the costs and effects of any adverse developments in legal proceedings or other claims and the costs and effects of unfavorable resolution of regulatory and other governmental examinations or inquiries;
- •continued availability of earnings and dividends from Civista and excess capital sufficient for us to service our debt and pay dividends to our shareholders in compliance with applicable legal and regulatory requirements;
- •our ability to raise additional capital in the future if and when needed and/or on terms acceptable to us;
- •our ability to conform and comply with regulatory requirements and increasing scrutiny and evolving expectations from customers, regulatory authorities, shareholders, investors and other stakeholders with regard to our environmental, social and governance (ESG) policies and practices, which could affect our reputation and business and operating results;
- •our ability to anticipate and successfully keep pace with technological changes affecting the financial services industry; and
- •other risks identified from time-to-time in the Company's other public documents on file with the SEC, including those risks identified in "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as supplemented by "Item 1A. Risk Factors" of Part II of the Company's Quarterly Report on Form 10-Q

The Company does not undertake, and specifically disclaims, any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements, except as required by law.

Financial Condition

Total assets of the Company at September 30, 2023 were $3,732,916 compared to $3,537,830 at December 31, 2022, an increase of $195,086, or 5.5%. The increase in total assets was due to increases in net loans of $201,455, accompanied by other increases in cash, swap assets and deferred taxes of $6,955, $3,205, and $9,103, respectively. Total liabilities at September 30, 2023 were $3,400,171 compared to $3,202,995 at December 31, 2022, an increase of $197,176, or 6.2%. The increase in total liabilities was primarily attributable to an increase in total deposit accounts of $175,759 accompanied by an increase short term FHLB borrowings of $37,800, swap liabilities of $3,205 and accrued interest, taxes and other liabilities of $10,358, partially offset by decreases in long term FHLB borrowings, securities sold under agreements to repurchase, and other borrowings of $1,005, $25,143 and $4,552 respectively.

(Amounts in thousands, except share data)

Loans outstanding as of September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023	December 31, 2022	$ Change	% Change
Commercial & Agriculture	$ 301,877	$ 278,595	$ 23,282	8.4%
Commercial Real Estate—Owner Occupied	375,851	371,147	4,704	1.3%
Commercial Real Estate—Non-Owner Occupied	1,102,932	1,018,736	84,196	8.3%
Residential Real Estate	614,304	552,781	61,523	11.1%
Real Estate Construction	269,291	243,127	26,164	10.8%
Farm Real Estate	24,109	24,708	(599)	-2.4%
Lease Financing Receivables	48,259	36,797	11,462	31.1%
Consumer and Other	18,267	20,775	(2,508)	-12.1%
Total loans	2,754,890	2,546,666	208,224	8.2%
Allowance for credit losses	(35,280)	(28,511)	(6,769)	23.7%
Net loans	$ 2,719,610	$ 2,518,155	$ 201,455	8.0%

Included in Commercial & Agriculture loans above were $370 of PPP loans as of September 30, 2023 and $566 of PPP loans as of December 31, 2022.

Loans held for sale increased $906, or 132.7%, since December 31, 2022. The increase was due to increases in average loan balance held for sale. At September 30, 2023, 6 loans totaling $1,589 were held for sale as compared to 7 loans totaling $683 at December 31, 2022.

Net loans have increased $201,455, or 8.0%, since December 31, 2022. The increase at September 30, 2023 can be attributed to all categories, primarily Commercial Real Estate and Residential Real Estate.Farm Real Estate and Consumer and Other showed small decreases. At September 30, 2023, the net loan to deposit ratio was 97.3% compared to 96.1% at December 31, 2022. The increase in the net loan to deposit ratio is primarily the result of an increase in loans.

Upon adoption of CECL on January 1, 2023 we recorded an increase in the allowance for credit losses of $5,193. During the first six months of 2023 we recorded a provision for credit losses of $2,111, an increase of $1,111, from $1,000 during the same period of 2022. The increase in the reserves was principally related to loan growth during the first nine months of the year. As time progresses the results of economic conditions will require CECL model assumption inputs to change and further refinements to the estimation process may also be identified.

Net chargeoffs for the first nine months of 2023 totaled $535, compared to net recoveries of $133 in the first nine months of 2022. For the first nine months of 2023, the Company charged off a total of 52 loans. Fourteen Commercial and Agriculture loans totaling $754, three Residential Real Estate loans totaling $12 and thirty five Consumer and Other loans totaling $89 were charged off in the first nine months of the year. In addition, during the first nine months of 2023, the Company had recoveries on previously charged-off Commercial and Agriculture loans of $129, Commercial Real Estate – Non-Owner Occupied loans of $24, Residential Real Estate loans of $119, Real Estate Construction loans of $13 and Consumer and Other loans of $35. For each loan category, as well as in total, the percentage of net charge-offs to loans was less than one percent. Each of these factors was considered by management as part of the examination of both the level and mix of the allowance by loan type as well as the overall level of the allowance.

Management specifically evaluates loans that do not share common risk characteristics for estimates of loss. To evaluate the adequacy of the allowance for credit losses to cover probable losses in the loan portfolio, management considers specific reserve allocations for identified portfolio loans, reserves for delinquencies and historical reserve allocations. Loss migration rates are calculated over a three-year period for all portfolio segments. Management also considers certain economic factors for trends that management uses to account for the qualitative and environmental changes in risk, which affects the level of the reserve.

(Amounts in thousands, except share data)

Management analyzes each individually evaluated Commercial & Agriculture and Commercial Real Estate loan relationship with a balance of $350 or larger, on an individual basis and designates a loan as individually evaluated when it is in nonaccrual status or when an analysis of the borrower's operating results and financial condition indicates that underlying cash flows are not adequate to meet its debt service requirements. Loans held for sale are excluded from consideration as impaired. Loans are generally moved to nonaccrual status when 90 days or more past due. Loans, or portions thereof, are charged-off when deemed uncollectible. The allowance for credit losses as a percent of total loans was 1.28% at September 30, 2023 and 1.12% at December 31, 2022.

The available-for-sale security portfolio decreased by $21,915, from $615,402 at December 31, 2022 to $593,487 at September 30, 2023. Management continually evaluates our securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability and the level of interest rate risk to which the Company is exposed. These evaluations may cause the Company to change the level of funds it deploys into investment securities and change the composition of its investment securities portfolio. As of September 30, 2023, the Company was in compliance with all pledging requirements.

Premises and equipment, net, decreased $5,029 from December 31, 2022 to September 30, 2023. The decrease is primarily the result of equipment depreciation associated with CLF of $4,757.

Goodwill decreased by $617, from $125,695 at December 31, 2022 to $125,078 at September 30, 2023. The decrease is due to adjustments to estimated fair values of the assets acquired and liabilities assumed since the date of acquisition.

Bank owned life insurance (BOLI) increased $510 from December 31, 2022 to September 30, 2023. The increase is the result of increases in the cash surrender value of the underlying insurance policies.

Swap assets increased $3,205 from December 31, 2022 to September 30, 2023. The increase is primarily the result of an increase in market value.

Total deposits as of September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023	December 31, 2022	$ Change	% Change
Noninterest-bearing demand	$ 802,614	$ 896,333	$ (93,719)	-10.5%
Interest-bearing demand	464,338	527,879	(63,541)	-12.0%
Savings and money market	872,805	876,427	(3,622)	-0.4%
Time deposits	655,986	319,345	336,641	105.4%
Total Deposits	$ 2,795,743	$ 2,619,984	$ 175,759	6.7%

The Company had approximately $494,799 and $563,092 of uninsured deposits as of September 30, 2023 and December 31, 2022, respectively. Uninsured deposit amounts are estimated based on the portions of customer account balances that exceed the FDIC insurance limit of $250,000.

Total deposits at September 30, 2023 increased $175,759 from year-end 2022. Noninterest-bearing deposits decreased $93,719 from year-end 2022, while interest-bearing deposits, including savings and time deposits, increased $269,478 from December 31, 2022. This increase was partially offset by a $71,547 decrease in noninterest-bearing business accounts and a $32,283 decrease in noninterest-bearing personal accounts. The $63,541 decrease in interest-bearing demand accounts was spread across personal, business, and public fund accounts. The decrease in money market and savings accounts was primarily due to a $62,521 decrease in statement savings, partially offset by a $22,593 increase in money market accounts. The increase in time certificates was primarily due to a $202,500 increase in brokered time deposits. Jumbo time certificates also increased $61,382 while retail time certificates increased $28,763. The year-to-date average balance of total deposits increased $198,861, compared to the average balance for the same period in 2022, mainly due to a $247,228 increase in the average balance of time deposits.

Short-term FHLB advances increased $37,800 from December 31, 2022 to September 30, 2023. The increase is due to funding needs to support loan growth.

Securities sold under agreements to repurchase, which tend to fluctuate based on the liquidity needs of customers and short-term nature of the instrument, decreased $25,143 from December 31, 2022 to September 30, 2023.

Securities purchased payable increased $417 from December 31, 2022 to September 30, 2023. The increase is the result of an increase in accounts payable related to securities purchased but not yet funded.

Swap liabilities increased $3,205 from December 31, 2022 to September 30, 2023. The increase of $147 is the result of an increase in fair value of swap liabilities.

Accrued expenses and other liabilities increased $10,358 from December 31, 2022 to September 30, 2023. The increase is primarily the result of an increase in allowance for credit losses on unfunded commitments of $3,851 as a result of the Company's adoption of ASU 2013-16.

Shareholders' equity at September 30, 2023 was $332,745, or 8.9% of total assets, compared to $334,835, or 9.5% of total assets, at December 31, 2022. The decrease was the result of a decrease in the fair value of securities available-for-sale, net of tax, of $21,417. Net income of $33,309, partially offset by dividends on common shares of $7,088, the purchase of treasury shares of $1,497 and the one-time cumulative effect of adopting ASU 2016-13 of $8,774.

Total outstanding common shares at September 30, 2023 were 15,695,997, which increased from 15,728,234 common shares outstanding at December 31, 2022. Common shares outstanding increased due to the grant of 47,536 restricted common shares to certain officers under the Company's 2014 Incentive Plan, offset by 5,620 common shares surrendered by officers to the Company to pay taxes upon vesting of restricted shares and 1,740 restricted common shares forfeited.

Results of Operations

Three Months Ended September 30, 2023 and 2022

The Company had net income of $10,387 for the three months ended September 30, 2023, an decrease of $725 from net income of $11,112 for the same three months of 2022. Basic earnings per common share were $0.66 for the quarter ended September 30, 2023, compared to $0.72 for the same period in 2022. Diluted earnings per common share were $0.66 for the quarter ended September 30, 2023, compared to $0.72 for the same period in 2022. The primary reasons for the changes in net income are explained below.

Net interest income for the three months ended September 30, 2023 was $31,504, an increase of $1,065 from $30,439 for the same three months of 2022. This increase is the result of an increase of $13,253 in total interest income, offset by an increase of $12,188 in interest expense. Interest-earning assets averaged $3,380,169 during the three months ended September 30, 2023, an increase of $377,913 from $3,002,256 for the same period of 2022. The Company's average interest-bearing liabilities increased from $1,893,092 during the three months ended September 30, 2022 to $2,315,118 during the three months ended September 30, 2023. The Company's fully tax equivalent net interest margin for the three months ended September 30, 2023 and 2022 was 3.69% and 4.03%, respectively.

Total interest and dividend income was $45,786 for the three months ended September 30, 2023, an increase of $13,253 from $32,533 of total interest and dividend income for the same period in 2022. The increase in interest and dividend income is attributable to a $12,556 increase in interest and fees on loans, a $63 increase in interest income on taxable securities and a $338 increase in tax-exempt securities. The $12,556 increase in interest and fees on loans is attributable to average balances as well as loan yield. The average balance of loans increased by $390,091, or 17.0%, to $2,679,679 for the three months ended September 30, 2023 as compared to $2,289,588 for the same period in 2022. The loan yield increased to 5.88% for the three months ended September 30, 2023, from 4.71% for the same period in 2022.

Interest on taxable securities increased to $2.999 for the three months ended September 30, 2023, compared to $2,936 for the same period in 2022. The average balance of taxable securities was $359,154 for the three months ended September 30, 2023, as compared to $354,597 for the same period in 2022. The yield on taxable securities decreased 11 basis points to 2.95% for 2023, compared to 3.06% for 2022. Interest on tax-exempt securities increased $338 to $2,336 for the three months ended September 30, 2023, compared to $1,998 for the same period in 2022. The average balance of tax-exempt securities increased $17,721 to $286,048 for the three months ended September 30, 2023, as compared to $268,327 for the same period in 2022. The yield on tax-exempt securities increased 30 basis points to 3.77% for 2023, compared to 3.47% for 2022 .

Interest expense increased $12,188, or 582.0%, to $14,282 for the three months ended September 30, 2023, compared with $2,094 for the same period in 2022. The change in interest expense can be attributed primarily to increases in rates on interest-bearing liabililities accompanies by an increase in the average balance of interest-bearing liabilities. For the three months ended September 30, 2023, the average balance of interest-bearing liabilities increased $422,026 to $2,315,118 as compared to $1,893,092 for the same period in 2022. Interest incurred on deposits increased by $8,648 to $9,584 for the three months ended September 30, 2023, compared to $936 for the same period in 2022. The average balance of interest-bearing deposits increased by $227,999, as compared to the same period in 2022. Additionally, the rate paid on demand and savings and time deposit accounts increased from 0.21% in 2022 to 1.93% in 2023. The average balance on long-term FHLB balances decreased $22,692 as a result of a prepayment, while the rate paid increased 17 basis points. In addition, the average balance of short-term FHLB balances increased $226,834, compared to the same period in 2022. The rate paid on subordinated debentures increased 100 basis points for the three-month period ended September 30, 2023, as compared to the same period in 2022.

(Amounts in thousands, except share data)

The following table presents the condensed average balance sheets for the three months ended September 30, 2023 and 2022. The daily average loan amounts outstanding are net of unearned income and include loans held for sale and nonaccrual loans. The average balance of securities is computed using the carrying value of securities. Rates are annualized and taxable equivalent yields are computed using a 21% tax rate for tax-exempt interest income. The average yield has been computed using the historical amortized cost average balance for available-for-sale securities.

	Three Months Ended September 30,					
	2023			2022		
Assets:	Average balance	Interest	Yield/ rate*	Average balance	Interest	Yield/ rate*
Interest-earning assets:						
Loans, including fees**	$ 2,679,679	$ 39,732	5.86 %	$ 2,289,588	$ 27,176	4.71 %
Taxable securities	359,154	2,999	2.95 %	354,597	2,936	3.06 %
Tax-exempt securities	286,048	2,336	3.77 %	268,327	1,998	3.47 %
Interest-bearing deposits in other banks	55,288	719	5.16 %	89,744	423	1.87 %
Total interest-earning assets	$ 3,380,169	$ 45,786	5.34 %	$ 3,002,256	$ 32,533	4.30 %
Noninterest-earning assets:						
Cash and due from financial institutions	22,542			58,581		
Premises and equipment, net	50,999			28,633		
Accrued interest receivable	11,673			8,907		
Intangible assets	128,215			84,265		
Other assets	53,879			48,013		
Bank owned life insurance	64,008			53,131		
Less allowance for loan losses	(34,283)			(27,546)		
Total Assets	$ 3,677,202			$ 3,256,240		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Demand and savings	$ 1,333,903	$ 2,189	0.65 %	$ 1,457,112	$ 379	0.10 %
Time	632,111	7,395	4.64 %	280,903	557	0.79 %
Short-term FHLB advances	233,547	3,246	5.51 %	6,713	48	2.08 %
Long-term FHLB advances	2,644	15	2.25 %	25,336	133	2.84 %
Other borrowings	7,928	198	9.91 %	—	—	0.00 %
Federal funds purchased	98	—	0.00 %	—	—	0.00 %
Subordinated debentures	103,894	1,239	4.73 %	103,751	975	3.73 %
Repurchase Agreements	993	—	0.00 %	19,277	2	0.04 %
Total interest-bearing liabilities	$ 2,315,118	$ 14,282	2.45 %	$ 1,893,092	$ 2,094	0.44 %
Noninterest-bearing deposits	980,835			980,999		
Other liabilities	33,040			77,015		
Shareholders' Equity	348,209			305,134		
Total Liabilities and Shareholders' Equity	$ 3,677,202			$ 3,256,240		
Net interest income and interest rate spread		$ 31,504	2.89 %		$ 30,439	3.86 %
Net interest margin			3.69 %			4.03 %

*—Average yields are presented on a tax equivalent basis. The tax equivalent effect associated with loans and investments, included in the yields above, was $621 and $532 for the periods ended September 30, 2023 and 2022, respectively.

**—Average balance includes nonaccrual loans.

Net interest income may also be analyzed by comparing the volume and rate components of interest income and interest expense. The following table provides an analysis of the changes in interest income and expense between the three months ended September 30, 2023 and 2022.

	Increase (decrease) due to:		
	Volume (1)	Rate (1)	Net
		(Dollars in thousands)	
Interest income:			
Loans, including fees	$ 5,099	$ 7,457	$ 12,556
Taxable securities	166	(103)	63
Tax-exempt securities	163	175	338
Interest-bearing deposits in other banks	(214)	510	296
Total interest income	$ 5,214	$ 8,039	$ 13,253
Interest expense:			
Demand and savings	$ (35)	$ 1,845	$ 1,810
Time	1,390	5,448	6,838
Short-term FHLB advances	3,111	87	3,198
Long-term FHLB advances	(128)	10	(118)
Other borrowings	(2)	—	(2)
Federal funds purchased	—	—	—
Subordinated debentures	1	263	264
Repurchase agreements	198	—	198
Total interest expense	$ 4,535	$ 7,653	$ 12,188
Net interest income	$ 679	$ 386	$ 1,065

(1)The change in interest income and interest expense due to changes in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate.

The Company provides for loan losses through regular provisions to the allowance for credit losses. Upon adoption of CECL on January 1, 2023, we recorded an increase in the allowance for credit losses of $5,193. During the third quarter of 2023 we recorded a provision for credit losses of $630, an increase of $330, from $300 during the three months ended September 30, 2022. The increase in the reserves was principally related to loan growth during the quarter. As time progresses the results of economic conditions will require CECL model assumption inputs to change and further refinements to the estimation process may also be identified.

Noninterest income for the three-month periods ended September 30, 2023 and 2022 are as follows:

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Service charges	$ 1,853	$ 1,885	$ (32)	-1.7%
Net gain on sale of securities	—	4	(4)	-100.0%
Net gain (loss) on equity securities	69	(133)	202	-151.9%
Net gain on sale of loans and leases	787	637	150	23.5%
ATM/Interchange fees	1,424	1,394	30	2.2%
Wealth management fees	1,197	1,208	(11)	-0.9%
Lease revenue and residual income	1,913	—	1,913	0.0%
Bank owned life insurance	266	255	11	4.3%
Tax refund processing fees	—	—	—	0.0%
Swap fees	21	—	21	0.0%
Other	595	484	111	22.9%
Total noninterest income	$ 8,125	$ 5,734	$ 2,391	41.7%

(Amounts in thousands, except share data)

Noninterest income for the three months ended September 30, 2023 was $8,125, an increase of $2,391, or 41.7%, from $5,734 for the same period of 2022. The increase was primarily due to the addition of Lease revenue and residual income of $1,913 for the three months ended September 30, 2023, as a result of the acquisition of Vision Financial Group, Inc. (VFG) in October 2022. As of August 31, 2023, VFG was merged into Civista and now operates as a division of Civista and has been rebranded as Civista Leasing and Finance (CLF). Net gain/loss on equity securities increased $202 thousand as the result of a market valuation adjustment. The net gain on sale of loans and leases increased by $150 thousand compared to the same period last year. CLF generated a $466 thousand gain on the sale of $10.9 million in commercial loans and leases. The sale of mortgage loans generated a $321 thousand gain on the sale of $16.2 million, a decrease in the gain of $316 thousand and a $17.7 million decrease in volume in 2023, compared to 2022.

Noninterest expense for the three-month periods ended September 30, 2023 and 2022 are as follows:

	Three months ended September 30,			
	2023	2022	$ Change	% Change
Compensation expense	$ 14,054	$ 12,484	$ 1,570	12.6%
Net occupancy expense	1,368	1,252	116	9.3%
Equipment expense	2,687	637	2,050	321.8%
Contracted data processing	651	846	(195)	-23.0%
FDIC assessment	438	170	268	157.6%
State franchise tax	590	629	(39)	-6.2%
Professional services	1,010	1,335	(325)	-24.3%
Amortization of intangible assets	398	456	(58)	-12.7%
ATM/Interchange expense	619	604	15	2.5%
Marketing	497	372	125	33.6%
Software maintenance expense	1,052	942	110	11.7%
Other	3,388	2,828	560	19.8%
Total noninterest expense	$ 26,752	$ 22,555	$ 4,197	18.6%

Noninterest expense for the three months ended September 30, 2023 was $26,752, an increase of $4,197, or 18.6%, from $22,555 reported for the same period of 2022. Compensation expense increased primarily due to the acquisition of VFG resulting in an additional $1,300. The quarter-to-date average full time equivalent (FTE) employees were 528 at September 30, 2023, an increase of 85 FTEs over the same period in 2022. The increase in occupancy and equipment expense is primarily due to a $2,000 increase in equipment depreciation and expense related to the acquisition of VFG. The decrease in professional services of $325 is attributable to higher consulting expense in 2022 related to the acquisition of Comunibanc Corp. ("Comunibanc") on July 1, 2022. The increase in other operating expense is primarily due to a $130 thousand provision for credit losses on unfunded commitments as well as an increase in bad check loss of $255 thousand compared to the same period in 2022. Additional increases related to the acquisition of VFG are also attributable to the increase in 2023.

Income tax expense for the three months ended September 30, 2023 totaled $1,860, down $346 compared to the same period in 2022. The effective tax rates for the three-month periods ended September 30, 2023 and 2022 were 15.2% and 16.6%, respectively. The difference between the statutory federal income tax rate and the Company's effective tax rate is the permanent tax differences, primarily consisting of tax-exempt interest income from municipal investments and loans, low income housing tax credits, tax-deductible captive insurance premiums and bank owned life insurance income.

Nine Months Ended September 30, 2023 and 2022

The Company had net income of $33,309 for the nine months ended September 30, 2023, an increase of $6,030 from net income of $27,279 for the same nine months of 2022. Basic earnings per common share were $2.12 for the period ended September 30, 2023, compared to $1.82 for the same period in 2022. Diluted earnings per common share were $2.12 for the period ended September 30, 2023, compared to $1.82 for the same period in 2022. The primary reasons for the changes in net income are explained below.

Net interest income for the nine months ended September 30, 2023 was $95,444, an increase of $17,805, from $77,639 in the same nine months of 2022. This increase is the result of an increase of $47,397 in total interest income, partially offset by an increase of $29,592 in total interest expense. Interest-earning assets averaged $3,284,210 during the nine months ended September 30, 2023, an increase of $389,120 from $2,895,090 for the same period of 2022. The Company's average interest-bearing liabilities increased from $1,850,724 for the first nine months of 2022 to $2,270,844 for the same period in 2023. The Company's fully tax equivalent net interest margin for the nine months ended September 30, 2023 and 2022 was 3.88% and 3.62%, respectively.

Total interest and dividend income increased $47,397 to $130,660 for the period ended September 30, 2023 This change was the result of an increase in the average balance of loans, accompanied by a higher yield on the portfolio. The average balance of loans increased by $496,613, or 23.5%, to $2,607,632 for the period ended September 30, 2023, as compared to $2,111,019 for the period ended September 30, 2022. The loan yield increased to 5.85% for 2023, from 4.44% in 2022.

Interest on taxable securities increased $2,386 to $8,817 for the period ended September 30, 2023, compared to $6,431 for the same period in 2022. The average balance of taxable securities increased $45,864 to $367,946 for the period ended September 30, 2023, as compared to $322,262 for the period ended September 30, 2022. The yield on taxable securities increased 36 basis points to 2.89% for 2023, compared to 2.53% for 2022. Interest on tax-exempt securities increased $1,248 to $6,917 for the period ended September 30, 2023, compared to $5,669 for the same period in 2022. The average balance of tax-exempt securities increased $22,460 to $285,250 for the period ended September 30, 2023, as compared to $262,790 for the period ended September 30, 2022. The yield on tax-exempt securities increased 24 basis points to 3.79% for 2023, compared to 3.55%for 2022.

Interest on interest-bearing deposits in other banks decreased $280 to $818 for the period ended September 30, 2023, compared to $1,098 for the same period in 2022. The average balance of interest-bearing deposits in other banks decreased $175,637 to $23,382 for the period ended September 30, 2023, as compared to $199,019 for the period ended September 30, 2022. The yield on interest-bearing deposits in other banks increased 393 basis points to 4.67% for 2023, compared to 0.74% for 2022.

Interest expense increased $29,592, or 526%, to $35,216 for the period ended September 30, 2023, compared with $5,624 for the same period in 2022. The change in interest expense can be attributed to an increase in rate and an increase in the average balance of interest-bearing liabilities. For the period ended September 30, 2023, the average balance of interest-bearing liabilities increased $420,120 to $2,270,844, compared to $1,850,724 for the period ended September 30, 2022. Interest incurred on deposits increased by $17,999 to $20,350 for the period ended September 30, 2023, compared to $2,351 for the same period in 2022. The average balance of interest-bearing deposits increased by $193,705 during the period and the rate paid on demand and savings accounts increased from 0.19% in 2022 to 1.46%in 2023. The rate paid on time deposits increased from 0.80% in 2022 to 4.17% in 2023. The average balance on long-term FHLB balances decreased $55,201 as a result of prepayment, while the rate paid increased 105 basis points. In addition, the average balance of short-term FHLB balances increased to $282,214, compared to the same period in 2022. The rate paid on subordinated debentures increased 119 basis points for the period ended September 30, 2023, as compared to the same period in 2022.

(Amounts in thousands, except share data)

The following table presents the condensed average balance sheets for the nine months ended September 30, 2023 and 2022. The daily average loan amounts outstanding are net of unearned income and include loans held for sale and nonaccrual loans. The average balance of securities is computed using the carrying value of securities. Rates are annualized and taxable equivalent yields are computed using a 21% tax rate for tax-exempt interest income. The average yield has been computed using the historical amortized cost average balance for available-for-sale securities.

	Nine Months Ended September 30,					
	2023			2022		
Assets:	**Average balance**	**Interest**	**Yield/ rate***	**Average balance**	**Interest**	**Yield/ rate***
Interest-earning assets:						
Loans, including fees**	$ 2,607,632	$ 114,108	5.85%	$ 2,111,019	$ 70,065	4.44%
Taxable securities	367,946	8,817	2.89%	322,262	6,431	2.53%
Tax-exempt securities	285,250	6,917	3.79%	262,790	5,669	3.55%
Interest-bearing deposits in other banks	23,382	818	4.67%	199,019	1,098	0.74%
Total interest-earning assets	$ 3,284,210	$ 130,660	5.29%	$ 2,895,090	$ 83,263	3.88%
Noninterest-earning assets:						
Cash and due from financial institutions	33,918			108,220		
Premises and equipment, net	58,338			24,429		
Accrued interest receivable	11,176			8,025		
Intangible assets	133,154			84,268		
Other assets	61,669			44,077		
Bank owned life insurance	53,796			48,965		
Less allowance for loan losses	(33,138)			(27,168)		
Total Assets	$ 3,603,123			$ 3,185,906		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Demand and savings	$ 1,360,692	$ 4,818	0.47%	$ 1,414,215	$ 860	0.08%
Time	497,458	15,532	4.17%	250,230	1,491	0.80%
Short-term FHLB advance	282,214	10,617	5.03%	2,380	49	—
Long-term FHLB advance	3,062	51	2.23%	58,263	515	2.75%
Other borrowings	11,810	582	6.59%	—	—	—
Federal funds purchased	143	5	4.67%	—	—	—
Subordinated debentures	103,854	3,607	4.64%	103,726	2,701	3.48%
Repurchase Agreements	11,611	4	5.00%	21,910	8	5.00%
Total interest-bearing liabilities	$ 2,270,844	$ 35,216	2.07%	$ 1,850,724	$ 5,624	0.41%
Noninterest-bearing deposits	941,842			936,686		
Other liabilities	44,739			76,748		
Shareholders' Equity	345,698			321,748		
Total Liabilities and Shareholders' Equity	$ 3,603,123			$ 3,185,906		
Net interest income and interest rate spread		$ 95,444	3.22%		$ 77,639	3.47%
Net interest margin			3.88%			3.62%

*—Average yields are presented on a tax equivalent basis. The tax equivalent effect associated with loans and investments, included in the yields above, was $1,839 and $1,509 for the periods ended September 30, 2023 and 2022, respectively.

**—Average balance includes nonaccrual loans.

Net interest income may also be analyzed by comparing the volume and rate components of interest income and interest expense. The following table provides an analysis of the changes in interest income and expense between the nine months ended September 30, 2023 and 2022. The table is presented on a fully tax-equivalent basis.

	Increase (decrease) due to:		
	Volume (1)	Rate (1)	Net
		(Dollars in thousands)	
Interest income:			
Loans, including fees	$ 18,713	$ 25,330	$ 44,043
Taxable securities	1,412	974	2,386
Tax-exempt securities	854	394	1,248
Interest-bearing deposits in other banks	(1,703)	1,422	(281)
Total interest income	$ 19,276	$ 28,120	$ 47,396
Interest expense:			
Demand and savings	$ (34)	$ 3,992	$ 3,958
Time	2,653	11,388	14,041
Short-term FHLB advance	10,494	74	10,568
Long-term FHLB advance	(711)	247	(464)
Other borrowings	587	—	587
Federal funds purchased	—	—	—
Subordinated debentures	3	903	906
Repurchase agreements	(4)	—	(4)
Total interest expense	$ 12,988	$ 16,604	$ 29,592
Net interest income	$ 6,288	$ 11,516	$ 17,804

(1) The change in interest income and interest expense due to changes in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate.

The Company provides for loan losses through regular provisions to the allowance for loan losses. Upon adoption of CECL on January 1, 2023, we recorded an increase in the allowance for credit losses of $5,193. During the nine months ended September 30, 2023 we recorded a provision for credit losses of $2,111, an increase of $1,111, from $1,000 during the nine months ended September 30, 2022. The increase in the reserves was principally related to loan growth during the year. As time progresses the results of economic conditions will require CECL model assumption inputs to change and further refinements to the estimation process may also be identified.

The components of noninterest income for the nine-month periods ended September 30, 2023 and 2022 were as follows:

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Service charges	$ 5,457	$ 5,004	$ 453	9.1%
Net gain on sale of securities	—	10	(10)	-100.0%
Net gain (loss) on equity securities	(169)	(44)	(125)	284.1%
Net gain on sale of loans and leases	2,033	2,146	(113)	-5.3%
ATM/Interchange fees	4,227	3,990	237	5.9%
Wealth management fees	3,570	3,713	(143)	-3.9%
Lease revenue and residual income	6,160	0	6,160	0.0%
Bank owned life insurance	830	732	98	13.4%
Tax refund processing fees	2,375	2,375	—	0.0%
Swap fees	198	—	198	0.0%
Other	3,661	1,086	2,575	237.1%
Total noninterest income	$ 28,342	$ 19,012	$ 9,330	49.1%

(Amounts in thousands, except share data)

Noninterest income for the nine months ended September 30, 2023 was $28,342, an increase of $9,330, or 49.1%, from $19,012 for the same period of 2022. The increase was primarily due to increases in lease revenue and residual income of $6,160 due to the acquisition of VFG during the fourth quarter of 2022. The increase in service charge income is split between $115 in personal service charges and $149 in business service charges. Overdraft fees also increased by $188. The net gain/loss on equity securities decrease was the result of a market valuation adjustment. The net gain on sale of loans and leases decreased by $113 thousand compared to the same period last year. CLF generated a $1.1 million gain on the sale of $32.9 million in commercial loans and leases. The sale of mortgage loans generated a $911 thousand gain on the sale of $42.2 million, a decrease in the gain of $1.2 million and a $65.4 million decrease in volume in 2023, compared to 2022.

Other income increased as result of a $1.5 million fee collected associated with the renewal of the company's contract with MasterCard. Other income also increased as result of $707 thousand in interim rent at CLF, and $198 thousand increase in swap fee income.

Tax refund processing fees were $2,375 for each of the nine months ended September 30, 2023 and 2022. These fees are received for processing state and federal income tax refund payments for customers of third party income tax preparation vendors. This fee income is seasonal in nature, the majority of which is earned in the first quarter of the year.

The components of noninterest expense for the nine-month periods ended September 30, 2023 and 2022 are as follows:

	Nine months ended September 30,			
	2023	2022	$ Change	% Change
Compensation expense	$ 44,137	$ 36,654	$ 7,483	20.4%
Net occupancy expense	4,096	3,428	668	19.5%
Equipment expense	8,214	1,694	6,520	384.9%
Contracted data processing	1,730	1,899	(169)	-8.9%
FDIC assessment	1,215	568	647	113.9%
State franchise tax	1,770	1,848	(78)	-4.2%
Professional services	3,804	3,593	211	5.9%
Amortization of intangible assets	1,195	890	305	34.3%
ATM/Interchange expense	1,814	1,659	155	9.3%
Marketing	1,542	1,069	473	44.2%
Software maintenance expense	2,989	2,440	549	22.5%
Other operating expenses	9,792	7,450	2,342	31.4%
Total noninterest expense	$ 82,298	$ 63,192	$ 19,106	30.2%

Noninterest expense for the nine months ended September 30, 2023 was $82,298, an increase of $19,106, or 30.2%, from $63,192 reported for the same period of 2022. The primary reasons for the increase were increases in compensation expense, equipment expense, FDIC assessment, professional fees, amortization expense, software maintenance expense and other operating expense. Compensation expense increased primarily due to $4.6 million of salaries related to the acquisition of VFG. Other increases related to salaries were a result of annual merit increases and add-to-staff positions as well as increases in employee insurance. The year-to-date average full time equivalent (FTE) employees were 531 at September 30, 2023, an increase of 67 FTEs over the same period in 2022. The increase in occupancy and equipment expense is primarily due to a $6.1 million increase in equipment depreciation related to the acquisition of VFG. The $305 increase in amortization of intangible assets is related to the core deposit intangible associated with the acquisition of Comunibanc. Marketing expense increased due to an increase in marketing efforts in newly acquired markets related to the Comunibanc and VFG acquisitions totaling $1,542 for the first nine months of 2023 compared to $1,069 for the same period in 2022. The increase in software maintenance is due to increases in maintenance contracts related to the digital banking platform. Other operating expenses increased from 2022 by $2,342 primarily due to a $595 thousand provision for credit losses on unfunded commitments, a $353 increase in bad check loss expense and additional expenses related to CLF of $608 thousand. Business promotion, travel and lodging, donations and education and training all increased as well.

Income tax expense for the nine months ended September 30, 2023 totaled $6,068, up $888 compared to the same period in 2022. The effective tax rate for the nine-month period ended September 30, 2023 was 15.4% compared to 16% for the same period in 2022. The difference between the statutory federal income tax rate and the Company's effective tax rate is the permanent tax differences, primarily consisting of tax-exempt interest income from municipal investments and loans, low income housing tax credits, tax-deductible captive insurance premiums and bank owned life insurance income.

(Amounts in thousands, except share data)

Capital Resources

Shareholders' equity totaled $332,745 at September 30, 2023, compared to $334,835 at December 31, 2022. Shareholders' equity decreased during the first nine months of 2023 as a result of a decrease in the fair value of securities available-for-sale, net of tax, of $21,417, dividends on common shares of $7,088, the purchase of treasury shares of $1,618 and the cumulative effect of adopting ASU 2016-13 of $6,069, partially offset by net income of $33,309.

All of the Company's capital ratios exceeded the regulatory minimum guidelines as of September 30, 2023 and December 31, 2022 as identified in the following table:

	Total Risk Based Capital	Tier I Risk Based Capital	CET1 Risk Based Capital	Leverage Ratio
Company Ratios—September 30, 2023	14.5%	10.7%	9.7%	8.8%
Company Ratios—December 31, 2022	14.5%	10.8%	9.7%	8.9%
For Capital Adequacy Purposes	8.0%	6.0%	4.5%	4.0%
To Be Well Capitalized Under Prompt Corrective Action Provisions	10.0%	8.0%	6.5%	5.0%

Liquidity

The Company maintains a conservative liquidity position. All securities, with the exception of equity securities, are classified as available-for-sale. Securities, with maturities of one year or less, totaled $6,149, or 1.04% of the total security portfolio at September 30, 2023. The available-for-sale portfolio helps to provide the Company with the ability to meet its funding needs. The Condensed Consolidated Statements of Cash Flows (Unaudited) contained in the Consolidated Financial Statements detail the Company's cash flows from operating activities resulting from net earnings.

As reported in the Condensed Consolidated Statements of Cash Flows (Unaudited), our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was $60,593 and $27,421 for the nine months ended September 30, 2023 and 2022, respectively.Net cash used by investing activities was $216,826 and $207,756 for the nine months ended September 30, 2023 and 2022, respectively, principally reflecting our loan and investment security activities. Cash provided by deposits comprised most of our financing activities, which resulted in net cash provided by of $163,188 and used of $42,990 for the nine months ended September 30, 2023 and 2022, respectively.

Future loan demand of Civista may be funded by increases in deposit accounts, proceeds from payments on existing loans, the maturity of securities, and the sale of securities classified as available-for-sale. Additional sources of funds may also come from borrowing in the Federal Funds market and/or borrowing from the FHLB. Through its correspondent banks, Civista maintains federal funds borrowing lines totaling $50,000. As of September 30, 2023, Civista had total credit availability with the FHLB of $771,067 with standby letters of credit totaling $33,400 and a remaining borrowing capacity of approximately $303,594. In addition, CBI maintains a credit line with a third party lender totaling $15,000. No borrowings were outstanding by CBI under this credit line as of September 30, 2023.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The Company’s primary market risk exposure is interest-rate risk and, to a lesser extent, liquidity risk. All of the Company’s transactions are denominated in U.S. dollars with no specific foreign exchange exposure.

Interest-rate risk is the exposure of a banking organization’s financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value. However, excessive levels of interest-rate risk can pose a significant threat to the Company’s earnings and capital base. Accordingly, effective risk management that maintains interest-rate risk at prudent levels is essential to the Company’s safety and soundness.

Evaluating a financial institution’s exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest-rate risk and the organization’s quantitative level of exposure. When assessing the interest-rate risk management process, the Company seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain interest-rate risk at prudent levels with consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity and, where appropriate, asset quality.

The Federal Reserve Board, together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, issue policy statements and guidance on sound practices for managing interest-rate risk, which form the basis for ongoing evaluation of the adequacy of interest-rate risk management at supervised institutions. The guidance also outlines fundamental elements of sound management and discusses the importance of these elements in the context of managing interest-rate risk. The guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk-management process that effectively identifies, measures, and controls interest-rate risk.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest-rate changes. For example, assume that an institution’s assets carry intermediate- or long-term fixed rates and that those assets were funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution’s interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution’s profits could decrease on existing assets because the institution will have either lower net interest income or, possibly, net interest expense. Similar risks exist when assets are subject to contractual interest-rate ceilings, or rate sensitive assets are funded by longer-term, fixed-rate liabilities in a decreasing-rate environment.

Several techniques may be used by an institution to minimize interest-rate risk. One approach used by the Company is to periodically analyze its assets and liabilities and make future financing and investment decisions based on payment streams, interest rates, contractual maturities, and estimated sensitivity to actual or potential changes in market interest rates. Such activities fall under the broad definition of asset/liability management. The Company’s primary asset/liability management technique is the measurement of the Company’s asset/liability gap, that is, the difference between the cash flow amounts of interest sensitive assets and liabilities that will be refinanced (or repriced) during a given period. For example, if the asset amount to be repriced exceeds the corresponding liability amount for a certain day, month, year, or longer period, the institution is in an asset sensitive gap position. In this situation, net interest income would increase if market interest rates rose or decrease if market interest rates fell. If, alternatively, more liabilities than assets will reprice, the institution is in a liability sensitive position. Accordingly, net interest income would decline when rates rose and increase when rates fell. Also, these examples assume that interest rate changes for assets and liabilities are of the same magnitude, whereas actual interest rate changes generally differ in magnitude for assets and liabilities.

(Amounts in thousands, except share data)

Several ways an institution can manage interest-rate risk include selling existing assets or repaying certain liabilities; matching repricing periods for new assets and liabilities, for example, by shortening terms of new loans or securities; and hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest-rate risk. Interest rate swaps, futures contracts, options on futures, and other such derivative financial instruments often are used for this purpose. Because these instruments are sensitive to interest rate changes, they require management expertise to be effective. The Company has not purchased derivative financial instruments to hedge interest rate risk in the past and does not currently intend to purchase such instruments in the near future. Financial institutions are also subject to prepayment risk in falling rate environments. For example, mortgage loans and other financial assets may be prepaid by a debtor so that the debtor may refinance its obligations at new, lower rates. Prepayments of assets carrying higher rates reduce the Company's interest income and overall asset yields. A large portion of an institution's liabilities may be short-term or due on demand, while most of its assets may be invested in long-term loans or securities. Accordingly, the Company seeks to have in place sources of cash to meet short-term demands. These funds can be obtained by increasing deposits, borrowing, or selling assets. FHLB advances and wholesale borrowings may also be used as important sources of liquidity for the Company.

The following table provides information about the Company's financial instruments that were sensitive to changes in interest rates as of December 31, 2022 and September 30, 2023, based on certain prepayment and account decay assumptions that management believes are reasonable. The table shows the changes in the Company's net portfolio value (in amount and percent) that would result from hypothetical interest rate increases of 200 basis points and 100 basis points and interest rate decreases of 100 basis points and 200 basis points at September 30, 2023 and December 31, 2022.

	Net Portfolio Value					
	September 30, 2023			December 31, 2022		
Change in Rates	Dollar Amount	Dollar Change	Percent Change	Dollar Amount	Dollar Change	Percent Change
+200bp	578,836	233	>1%	571,328	14,733	3%
+100bp	578,433	2,830	>1%	566,596	10,001	2%
Base	575,603	—	—	556,595	—	—
-100bp	578,576	2,973	1%	548,575	(8,020)	(1)%
-200bp	568,172	(7,431)	(1)%	526,702	(29,893)	(5)%

The change in net portfolio value from December 31, 2022 to September 30, 2023, can be attributed to a couple of factors. The yield remains inverted but has shifted upward since the end of the year. Additionally, both the volume and mix of assets and funding sources has changed. The volume of loans has increased, and the asset mix remains centered on loans. The volume of certificates of deposit has increased and both deposits and borrowed money have decreased. The volume and mix shifts from the end of the year contributed to an increase in the base net portfolio value. Beyond the change in the base level of net portfolio value, projected movements in rates, up or down, would also lead to changes in market values. The change in the rates up scenarios for both the 100 and 200 basis point movements would lead to a slightly larger decrease in the market value of liabilities than assets. Accordingly, we see a slight increase in the net portfolio value. The change in the rates down scenario for 200 basis point movements would lead to a larger increase in the market value of liabilities than in assets, leading to a decrease in the net portfolio value.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive and our principal financial officers, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our principal executive and our principal financial officers concluded that our disclosure controls and procedures as of September 30, 2023, were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

In the ordinary course of their respective businesses, CBI or Civista or their respective properties may be named or otherwise subject as a plaintiff, defendant or other party to various pending and threatened legal proceedings and various actual and potential claims. In view of the inherent difficulty of predicting the outcome of such matters, the Company cannot state what the eventual outcome of any such matters will be. However, based on current knowledge and after consultation with legal counsel, management believes these proceedings will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of CBI or Civista.

Item 1A. Risk Factors

The following information updates our risk factors and should be read in conjunction with the risk factors disclosed in “Item 1A. Risk Factors” of Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. A detailed discussion of our risk factors is included in “Item 1A. Risk Factors” of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, as supplemented by “Item IA. Risk Factors” of Part II of the Company’s Quarterly Reports on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated any “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit	Description	Location
2.1	Agreement and Plan of Merger, dated January 10, 2022 by and between Civista Bancshares, Inc. and Comunibanc Corp.	Filed as Exhibit 2.1 to Civista Bancshares, Inc.'s Current Report on Form 8-K dated and filed on January 10, 2022 and incorporated herein by reference. (File No. 001-36192)
2.2	Stock Purchase Agreement, dated as of September 29, 2022, by and among Civista Bancshares, Inc., Civista Bank, Vision Financial Group, Inc. and Frederick Summers	Filed as Exhibit 2.1 to Civista Bancshares, Inc.'s Current Report on Form 8-K filed on September 30, 2022 and incorporated herein by reference. (File No. 001-36192)
3.1	Second Amended and Restated Articles of Incorporation of Civista Bancshares, Inc., as filed with the Ohio Secretary of State on November 15, 2018.	Filed as Exhibit 3.1 to Civista Bancshares, Inc.'s Current Report on Form 8-K, filed on November 16, 2018 and incorporated herein by reference. (File No. 001-36192)
3.2	Amended and Restated Code of Regulations of Civista Bancshares, Inc. (adopted April 15, 2008)	Filed as Exhibit 3.2 to Civista Bancshares, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2017, filed on November 8, 2017 and incorporated herein by reference. (File No. 001-36192)
31.1	Rule 13a-14(a)/15-d-14(a) Certification of Chief Executive Officer.	Included herewith
31.2	Rule 13a-14(a)/15-d-14(a) Certification of Principal Accounting Officer.	Included herewith
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Included herewith
32.2	Certification of Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Included herewith
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023, formatted in Inline Extensible Business Reporting Language: (i) Consolidated Balance Sheets (Unaudited) as of September 30, 2023 and December 31, 2022; (ii) Consolidated Statements of Income (Unaudited) for the three-months ended September 30, 2023 and 2022; (iii) Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three and nine-months ended September 30, 2023 and 2022; (iv) Consolidated Statement of Shareholders' Equity (Unaudited) for the three and nine-months ended September 30, 2023 and 2022; (v) Condensed Consolidated Statement of Cash Flows (Unaudited) for the three and nine-months ended September 30, 2023 and 2022; and (vi) Notes to Interim Consolidated Financial Statements (Unaudited).	Included herewith
104	Cover page formatted in Inline Extensible Business Reporting Language.	Included herewith

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Civista Bancshares, Inc.

/s/ Dennis G. Shaffer	November 9, 2023
Dennis G. Shaffer Chief Executive Officer and President	Date
/s/ Todd A. Michel	November 9, 2023
Todd A. Michel Senior Vice President, Controller	Date

Section 302 Certification
For Principal Executive Officer

Exhibit 31.1

I, Dennis G. Shaffer, certify that:

1.I have reviewed this quarterly report on Form 10-Q of Civista Bancshares, Inc.;

2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a.Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c.Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5.The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a.All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b.Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Signature and Title:	/s/ Dennis G. Shaffer, Chief Executive Officer, President	Date:	November 9, 2023

Section 302 Certification
For Principal Accounting Officer

Exhibit 31.2

I, Todd A. Michel, certify that:

1.I have reviewed this quarterly report on Form 10-Q of Civista Bancshares, Inc.;

2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a.Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c.Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a.All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b.Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Signature and Title:	/s/ Todd A. Michel, Senior Vice President, Controller	Date:	November 9, 2023

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Civista Bancshares, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date of this certification (the “Report”), I, Dennis G. Shaffer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dennis G. Shaffer

Dennis G. Shaffer
Chief Executive Officer and President
November 9, 2023

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Civista Bancshares, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date of this certification (the “Report”), I, Todd A. Michel, Senior Vice President and Controller of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd A. Michel

Todd A. Michel
Senior Vice President and Controller
November 9, 2023