Portage Bancshares, Inc.

2022

Annual Report

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PORTAGE BANCSHARES, INC.
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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To Our Fellow Shareholders,

On behalf of the Board of Directors and Management, I am pleased to share the operating results and overall performance of Portage Bancshares, Inc. ("PBI"), parent company of Portage Community Bank ("PCB"), for the year ended December 31, 2022.

We are pleased to report a year of outstanding performance. In 2022, we achieved the best earnings in our company's history with growth in both the loan and the deposit portfolios and continued investment in the communities we serve through volunteerism and community outreach efforts.

Over the past few years, the bank undertook a strategic approach to utilize excess capital to lay the groundwork for achieving calculated growth moving forward. Within the framework of this strategic approach, we successfully opened our third banking office in Cuyahoga Falls in 2020, successfully opened our fourth banking office in Rootstown in 2021, successfully opened a separate, standalone Portage Community Financial Services ("PCFS") office in historic downtown Ravenna in 2021, committed resources for necessary operational improvements and technological enhancements to support the growth, heightened cybersecurity protections, and the sustained prosperity of our financial institution, and worked tremendously hard to find ways to optimize our processes, renegotiate contracted services, and do everything possible to reduce costs in striving for optimal efficiency. Our 2022 operating results reflect our successful strategic progression made possible by our branch office growth and operational efficiencies realized in light of the prolonged COVID-19 pandemic, the mix of economic uncertainty, market volatility, soaring inflation and (resulting) soaring interest rates, and very competitive banking environment.

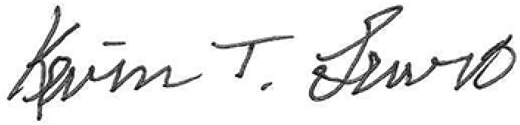
The bank's strategic actions resulted in significant growth in 2022 as we surpassed the $475 million threshold in total assets, the $315 million threshold for total loans, and the $415 threshold for total deposits as of the year ended December 31, 2022. Our PCFS division surpassed the $155 million threshold in assets under management in 2022 and continues to be an excellent financial services option for our banking customers' alternative options outside of banking products. Overall, we experienced a tremendous year as far as lending initiatives, expanded deposit growth results, investment earnings, and operational success.

Despite enduring an economy that continues to be significantly impacted by challenging economic and global events, we continue to solidify a strong foundation and have historically performed well in demanding times. Underpinning this performance is an engaged banking team and a best-in-class culture shaped for nearly 25 years. This provides a strong framework to take care of our customers through challenging economic cycles. While the economic outlook remains uncertain, the investments in our people and in our long-term growth are key to our success as we discover new ways to unlock our potential and imagine new possibilities in the times to come. In spite of the global and national economic times, the communities we serve throughout our footprint continue to grow and expand and we remain well positioned to meet the needs of all of our customers. A lot has changed since we opened the doors of the Bank in 1998; however, our unwavering commitment to the communities we serve continues to remain the same.

Our steady strong performance enabled our Board of Directors to increase the cash dividend to $1.20 per share in 2022 from $1.15 per share in 2021 – a 4.35% increase year-over-year. This represented the fifteenth consecutive year that PBI has declared a dividend since introducing a formal dividend practice. We are extremely proud of our sustained financial success and growth. Our continued emphasis on our vision of "Neighbors Serving Neighbors," along with local ownership, local management, and, most importantly, local decisions have contributed to our positive operating results and overall performance.

The successful performance of the Company would not have been possible without the efforts of our committed Board or Directors, dedicated management team, and loyal and knowledgeable staff. We believe as we move forward with our continued growth initiatives, we are well positioned to continue to meet the high standards we have set and to exceed your expectations. Most of all, thank you to our customers and shareholders for your continuous support and having the confidence in us to continually make our "Company" successful.

Sincerely,



Kevin T. Lewis
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Portage Bancshares, Inc.
Ravenna, Ohio

Opinion

We have audited the consolidated financial statements of Portage Bancshares, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Portage Bancshares, Inc. and its subsidiary as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements as of December 31, 2021, were audited by Zeno, Pockl, Lilly and Copeland, A.C., who merged with S.R. Snodgrass, P.C. as of January 1, 2023, and whose report dated March 29, 2022, expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Consolidated Financial Statements

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

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

PITTSBURGH, PA	PHILADELPHIA, PA	WHEELING, WV	STEUBENVILLE, OH
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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

S. R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Wheeling, West Virginia
March 28, 2023

PORTAGE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 9,170,356	$ 61,725,335
Interest-bearing deposits in other financial institutions	113,925	147,954
Federal funds sold	72,000	138,000
Cash and cash equivalents	9,356,281	62,011,289
Debt securities available for sale	116,367,001	113,231,974
Debt securities held to maturity	3,690,000	3,190,000
Loans held for sale	278,822	1,593,086
Loans	323,040,658	274,260,279
Less allowance for loan losses	3,061,257	2,887,191
Net loans	319,979,401	271,373,088
Regulatory stock	1,346,050	1,475,050
Premises and equipment, net	7,379,613	7,649,130
Bank-owned life insurance	11,072,877	10,834,566
Accrued interest receivable	1,743,359	1,480,383
Other assets	5,291,745	1,713,682
TOTAL ASSETS	$ 476,505,149	$ 474,552,248
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 95,604,386	$ 98,950,749
Interest-bearing demand	60,369,091	57,282,184
Savings	152,267,675	165,783,758
Time	111,442,301	87,117,482
Total deposits	419,683,453	409,134,173
Federal Home Loan Bank advances	10,680,965	12,154,359
Subordinated debentures	2,450,000	2,450,000
Accrued interest payable and other liabilities	6,116,042	5,076,275
TOTAL LIABILITIES	438,930,460	428,814,807
STOCKHOLDERS' EQUITY		
Common stock, no par value; 800,000 shares authorized, (Issued 559,150 and Outstanding 514,138 as of 12/31/22) (Issued 556,995 and Outstanding 512,083 as of 12/31/21)	22,083,076	21,886,995
Retained earnings	30,580,771	27,984,735
Accumulated other comprehensive income (loss)	(10,901,458)	41,826
Treasury stock, at cost (45,012 shares as of 12/31/22 and 44,912 shares as of 12/31/21)	(4,187,700)	(4,176,115)
TOTAL STOCKHOLDERS' EQUITY	37,574,689	45,737,441
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 476,505,149	$ 474,552,248

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2022	2021
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 13,071,583	$ 11,766,018
Federal funds sold and other interest income	219,534	112,343
Taxable securities	1,793,581	996,681
Tax-exempt securities	437,696	511,226
Other dividend income	64,906	44,032
Total interest and dividend income	15,587,300	13,430,300
INTEREST EXPENSE		
Deposits	1,594,349	1,391,453
Federal Home Loan Bank advances	205,647	277,246
Subordinated debentures	122,708	78,129
Total interest expense	1,922,704	1,746,828
NET INTEREST INCOME	13,664,596	11,683,472
Provision for loan losses	155,000	(100,000)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,509,596	11,783,472
NONINTEREST INCOME		
Service charges on deposit accounts	150,945	107,553
Net gains on sales of investment securities	-	81,485
Secondary market fees	714,213	1,319,371
Earnings on bank-owned life insurance	238,310	247,107
Investment banking fees and commissions	464,102	400,603
Net gains from other real estate owned	25,608	-
Other income	591,282	493,129
Total noninterest income	2,184,460	2,649,248
NONINTEREST EXPENSE		
Salaries and employee benefits	7,094,604	7,140,571
Net occupancy and equipment expenses	818,000	829,690
Data processing	410,025	489,118
Professional fees	268,034	252,062
Marketing and business development	409,737	332,785
Financial institutions tax	405,000	344,644
Federal deposit insurance	129,901	112,860
Net losses from other real estate owned	-	1,657
Other expense	2,306,134	2,386,609
Total noninterest expense	11,841,435	11,889,996
Income before income taxes	3,852,621	2,542,724
Income taxes	641,019	376,561
NET INCOME	$ 3,211,602	$ 2,166,163
EARNINGS PER SHARE		
Basic	$ 6.26	$ 4.23
Diluted	6.24	4.22

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2022	2021
Net income	$ 3,211,602	$ 2,166,163
Other comprehensive income (loss):		
Unrealized holding gain (loss) arising during the period	(13,852,258)	(1,856,644)
Tax effect	2,908,974	389,895
Reclassification of debt securities (gains) losses recognized in net income	-	(81,485)
Tax effect	-	17,112
Total other comprehensive (loss) income	(10,943,284)	(1,531,122)
Comprehensive income (loss)	$ (7,731,682)	$ 635,041

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2020	$ 21,827,780	$ 26,407,756	$ 1,572,948	$ (4,164,975)	$ 45,643,509
Purchase of 100 shares of treasury stock				(11,140)	(11,140)
Exercise of 500 shares of stock options	58,006				58,006
Tax benefits from exercise of stock options	1,209				
Cash dividends paid ($1.15 per share)		(589,184)			(589,184)
Net income		2,166,163			2,166,163
Other comprehensive loss			(1,531,122)		(1,531,122)
Balance, December 31, 2021	21,886,995	27,984,735	41,826	(4,176,115)	45,737,441
Purchase of 100 shares of treasury stock				(11,585)	(11,585)
Issuance of 670 shares of common stock awards	79,160				79,160
Exercise of 1,485 shares of stock options	112,475				112,475
Tax benefits from exercise of stock options	4,446				4,446
Cash dividends paid ($1.20 per share)		(615,566)			(615,566)
Net income		3,211,602			3,211,602
Other comprehensive loss			(10,943,284)		(10,943,284)
Balance, December 31, 2022	$ 22,083,076	$ 30,580,771	$ (10,901,458)	$ (4,187,700)	$ 37,574,689

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2022	2021
OPERATING ACTIVITIES		
Net income	$ 3,211,602	$ 2,166,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	155,000	(100,000)
Depreciation of premises and equipment	314,717	305,764
Net amortization of investment securities	412,696	688,219
Net realized (gain) loss on sales of investment securities	-	(81,485)
Secondary market income	(714,213)	(1,319,371)
Originations of loans held for sale	(29,101,056)	(42,635,556)
Proceeds from sale of loans held for sale	30,415,319	44,433,287
Net realized (gain) loss on sales of other real estate owned	(25,608)	1,657
Stock-based compensation expense	79,160	-
Earnings on bank-owned life insurance	(238,310)	(247,107)
Deferred income taxes	(76,799)	(33,695)
Net amortization of deferred loan fees	75,389	623,541
Tax benefit from exercise of stock options	(4,446)	(1,209)
Net change in:		
Accrued interest receivable and other assets	(908,962)	91,844
Accrued interest payable and other liabilities	1,050,589	238,186
Net cash provided by operating activities	4,645,078	4,130,238
INVESTING ACTIVITIES		
Available for sale securities:		
Proceeds from sales	-	1,213,637
Proceeds from maturities, prepayments, and calls	16,292,842	21,819,830
Purchases	(33,692,823)	(62,501,804)
Held to maturity securities:		
Proceeds from maturities, prepayments, and calls	-	737,000
Purchases	(500,000)	(3,927,000)
Purchase of Federal Home Loan Bank stock	129,000	-
Loan originations and payments, net	(48,122,489)	3,077,612
Additions to premises and equipment	(82,747)	(334,472)
Proceeds from premises and equipment	37,547	38,574
Proceeds from sale of other real estate owned	72,928	25,643
Net cash used for investing activities	(65,865,742)	(39,850,980)
FINANCING ACTIVITIES		
Net change in deposits	10,549,280	27,940,584
Proceeds from Federal Home Loan Bank advances	2,500,000	-
Repayment of Federal Home Loan Bank advances	(3,973,394)	(8,349,215)
Purchase of treasury stock	(11,585)	(11,140)
Tax benefit from exercise of stock options	4,446	1,209
Proceeds from exercise of stock options	112,475	58,006
Cash dividends paid	(615,566)	(589,184)
Net cash provided by financing activities	8,565,656	19,050,260
Increase (decrease) in cash and cash equivalents	(52,655,008)	(16,670,482)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	62,011,289	78,681,771
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,356,281	$ 62,011,289

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Nature of Operations and Basis of Presentation

Portage Bancshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Portage Community Bank (the "Bank"). The Bank generates commercial, mortgage, and consumer loans and receives deposits from customers located primarily in Portage and Summit Counties in Ohio, as well as the surrounding areas. The Bank is subject to regulations by the State of Ohio Division of Financial Institutions and the Company is subject to regulations by the Federal Reserve System through the Federal Reserve Bank of Cleveland.

The consolidated financial statements include the accounts of the Company and the Bank after elimination of all significant intercompany transactions and balances.

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet date and reported amounts of revenues and expenses for that period. Actual results could differ from those estimates.

Debt Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Common stock of the Federal Home Loan Bank ("FHLB") and Federal Reserve Bank represents ownership in institutions which are wholly owned by other financial institutions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Securities (Continued)

The Bank is a member of the FHLB of Cincinnati and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements; liquidity appears adequate, new shares of FHLB stock continue to change hands at $100 par value, and the resumption of dividends.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Loans held for sale were $278,822 and $1,593,086 at December 31, 2022 and 2021, respectively.

Loans

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

Interest income is accrued on the interest method based upon the unpaid principal balance and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past-due status is based on the contractual terms of the loan. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably ensured.

Allowance for Loan Losses

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

The allowance consists of specific and general components. The specific component is related to impaired loans, which are commercial and commercial real estate loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and commercial mortgage loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's obtainable market price or the fair value of the collateral if the loan is collateral-dependent. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. A component is maintained to cover uncertainties that could affect management's estimate of probable losses. This component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 10 years for furniture, fixtures, and equipment and 25 to 50 years for building premises. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from 7 to 15 years. Expenditures for maintenance and repairs are expensed as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance (BOLI)

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit, which would be recorded as noninterest income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

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

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Benefit Plans

The 401(k) plan expense is the amount contributed and is determined by formula and by Board of Directors decision. Supplemental retirement expense allocates the benefits over the years of service. The director deferral plan expense is comprised of the annual amount of director fees deferred by participating directors and related interest earned.

Stock Options

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

During the year ended December 31, 2022 and 2021, the Company recorded $13,193 and $1,929 in compensation expenses on the Company's Consolidated Statement of Income. There was $65,967 and $1,929 of unrecognized compensation cost related to unvested share-based compensation awards granted as of December 31, 2022 and 2021, respectively. The remaining cost is expected to be recognized over the next three years.

The cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) are classified as financing cash flows. The Company recognized $4,446 and $1,209 of excess tax benefits included as a financing cash inflow for the years ended December 31, 2022 and 2021, respectively, in the Consolidated Statement of Cash Flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options are adjusted in the denominator.

Basic weighted-average common shares outstanding totaled 512,816 and 511,817 for December 31, 2022 and 2021, respectively. Diluted weighted-average common shares outstanding totaled 514,369 and 513,681 for December 31, 2022 and 2021, respectively. The diluted weighted-average common shares outstanding are solely the result of stock options.

Comprehensive Income (Loss)

The Company is required to present comprehensive (loss) income and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive (loss) income comprises unrealized holding gains (losses) on the available for sale investment securities portfolio.

Cash Flow Information

For the purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with other financial institutions, and federal funds sold with original maturities of less than 90 days.

Cash payments for interest in 2022 and 2021 were $1,705,412 and $1,873,554, respectively. Income tax payments totaled $750,000 in 2022 and $475,000 in 2021. The Company did not transfer any loans from the portfolio to other real estate owned in 2022. The Company transferred $47,320 of loans from the portfolio to other real estate owned in 2021. Fair value adjustments for securities available for sale in 2022 and 2021 were ($13,852,258) and ($1,938,129), respectively.

Transfers of Financial Assets

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

Reclassification

Certain items in the prior year's financial statements have been reclassified to conform to the current year presentation. Such reclassifications did not affect consolidated net income or consolidated stockholders' equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

On January 1, 2021, the Company adopted ASU No. 2016-02 “Leases (Topic 842)” and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. We adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $56,322 and operating lease liabilities of $56,322 as of December 31, 2021. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company’s incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company’s Consolidated Income Statement. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company’s leasing activities are presented in Note 5 – *Leases*.

2. DEBT SECURITIES

The following summarizes the amortized cost and fair value of debt securities available-for-sale and securities held-to-maturity at December 31, 2022 and 2021 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

2022

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. treasury and federal agency	$ 30,391,958	$ 4,155	$ (1,940,761)	$ 28,455,352
U.S. government sponsored entities and agencies	23,950,006	1,606	(2,543,187)	21,408,425
Obligations of states and political subdivisions	32,815,033	26,682	(4,336,092)	28,505,623
Corporate bonds	500,000	-	-	500,000
Mortgage-backed securities: residential	30,117,968	16,403	(3,298,794)	26,835,577
Mortgage-backed securities: commercial	2,749,559	2,017	(117,717)	2,633,859
Colateralized mortgage obligations	9,641,790	-	(1,613,625)	8,028,165
Total available-for-sale	$ 130,166,314	$ 50,863	$ (13,850,176)	$ 116,367,001

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Certificates of deposit	$ 590,000	$ -	$ (47,317)	$ 542,683
Corporate bonds	3,100,000	-	(385,735)	2,714,265
Total held-to-maturity	$ 3,690,000	$ -	$ (433,052)	$ 3,256,948

2021

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. treasury and federal agency	$ 16,033,890	$ 5,245	$ (112,768)	$ 15,926,367
U.S. government sponsored entities and agencies	17,001,297	55,921	(287,611)	16,769,607
Obligations of states and political subdivisions	33,931,776	992,477	(292,251)	34,632,002
Mortgage-backed securities: residential	31,828,595	253,249	(353,308)	31,728,536
Mortgage-backed securities: commercial	3,796,352	64,491	(4,605)	3,856,238
Colateralized mortgage obligations	10,587,119	-	(267,895)	10,319,224
Total available-for-sale	$ 113,179,029	$ 1,371,383	$ (1,318,438)	$ 113,231,974

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Certificates of deposit	$ 590,000	$ -	$ (5,008)	$ 584,992
Corporate bonds	2,600,000	2,400	(25,190)	2,577,210
Total held-to-maturity	$ 3,190,000	$ 2,400	$ (30,198)	$ 3,162,202

2. DEBT SECURITIES (Continued)

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

	Amortized Cost	Fair Value
Available-for-sale		
Due within one year	$ 7,990,768	$ 7,883,219
Due after one year through five years	37,894,379	35,503,119
Due after five years through ten years	23,068,321	20,606,243
Due after ten years	18,703,529	14,876,819
Mortgage-backed securities: residential	30,117,968	26,835,577
Mortgage-backed securities: commercial	2,749,559	2,633,859
Collateralized mortgage oblgiations	9,641,790	8,028,165
Total available-for-sale	$ 130,166,314	$ 116,367,001
Held-to-maturity		
Due within one year	$ 100,000	$ 100,000
Due after one year through five years	490,000	442,683
Due after five years through ten years	3,100,000	2,714,265
Total held-to-maturity	$ 3,690,000	$ 3,256,948

Securities pledged at December 31, 2022 and 2021, respectively, had a carrying amount of $46,301,510 and $27,330,652 and were pledged to secure public deposits.

At December 31, 2022 and 2021, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

There were no sales of investment securities in 2022. In 2021, the Company realized gross gains of $81,485 and no gross losses as a result of proceeds of $1,213,637 in investment securities available for sale.

2. DEBT SECURITIES (Continued)

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31:

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. treasury and federal agency	$ 10,529,297	$ (418,536)	$ 17,440,117	$ (1,522,225)	$ 27,969,414	$ (1,940,761)
U.S. government sponsored entities and agencies	7,190,706	(241,021)	12,717,692	(2,302,166)	19,908,398	(2,543,187)
Obligations of states and political subdivisions	13,172,239	(682,517)	11,288,372	(3,653,575)	24,460,611	(4,336,092)
Mortgage-backed securities: residential	7,566,818	(399,175)	18,488,461	(2,899,619)	26,055,279	(3,298,794)
Mortgage-backed securities: commercial	1,807,024	(114,889)	145,616	(2,828)	1,952,640	(117,717)
Colateralized mortgage obligations	970,734	(19,966)	7,057,433	(1,593,659)	8,028,167	(1,613,625)
Total available-for-sale	$ 41,236,818	$ (1,876,104)	$ 67,137,691	$ (11,974,072)	$ 108,374,509	$ (13,850,176)

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificates of deposit	$ -	$ -	$ 442,683	$ (47,317)	$ 442,683	$ (47,317)
Corporate bonds	958,865	(141,135)	1,755,400	(244,600)	2,714,265	(385,735)
Total held-to-maturity	$ 958,865	$ (141,135)	$ 2,198,083	$ (291,917)	$ 3,156,948	$ (433,052)

2. DEBT SECURITIES (Continued)

	2021					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. treasury and federal agency	$ 14,928,399	$ (112,768)	$ -	$ -	$ 14,928,399	$ (112,768)
U.S. government sponsored entities and agencies	10,927,982	(182,897)	2,894,651	(104,714)	13,822,633	(287,611)
Obligations of states and political subdivisions	9,471,671	(196,545)	2,428,185	(95,706)	11,899,856	(292,251)
Mortgage-backed securities: residential	17,455,028	(266,276)	3,999,666	(87,032)	21,454,694	(353,308)
Mortgage-backed securities: commercial	-	-	189,430	(4,605)	189,430	(4,605)
Colateralized mortgage obligations	10,319,225	(267,895)	-	-	10,319,225	(267,895)
Total available-for-sale	$ 63,102,305	$ (1,026,381)	$ 9,511,932	$ (292,057)	$ 72,614,237	$ (1,318,438)

	2021					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity:						
Certificates of deposit	$ 484,992	$ (5,008)	$ -	$ -	$ 484,992	$ (5,008)
Corporate bonds	1,974,810	(25,190)	-	-	1,974,810	(25,190)
Total held-to-maturity	$ 2,459,802	$ (30,198)	$ -	$ -	$ 2,459,802	$ (30,198)

The Company reviews its position quarterly and has asserted that at December 31, 2022, the declines outlined in the above table represent temporary declines and the Company does not intend to sell these securities and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 265 positions that were temporarily impaired at December 31, 2022. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

3. LOANS

The composition of net loans is as follows at December 31:

		2022		2021
Commercial loans	$	33,439,686	$	23,972,583
Commercial real estate loans		139,823,997		129,913,215
Consumer loans		6,340,713		5,354,449
Residential loans		115,594,452		89,484,528
Home equity lines of credit		28,130,006		25,758,304
		323,328,854		274,483,079
Net deferred loan fees		(288,196)		(222,800)
Less allowance for loan losses		(3,061,257)		(2,887,191)
Net loans	$	319,979,401	$	271,373,088

The Company's primary business activity is with customers located within its local trade area, which is concentrated in Portage County in Ohio. Commercial loans, commercial real estate loans, consumer loans, residential loans, and home equity lines of credit are granted. Although the Company has a diversified loan portfolio at December 31, 2022 and 2021, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial loans, commercial real estate loans, consumer loans, residential loans, and home equity lines of credit. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a 60-month period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to non-classified loans. The following qualitative factors are analyzed for each portfolio segment:

- Changes in trends in lending policies and procedures
- Changes in economic trends
- Changes in volume and terms
- Changes in experience, depth,
- Changes in levels and trends in delinquencies
- Changes in historical loss allocations
- Changes in trends determined through loan review
- Changes in collateral dependent loan values
- Changes in concentrations of credit
- Changes in trends in external factors

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio. During 2022, the qualitative factor percentages for commercial loans, commercial real estate loans, consumer loans, residential loans, and home equity lines of credit decrease. The improvement from the decreasing levels and trends in delinquencies and external factors contributed to the decrease in qualitative factor percentages for commercial loans and commercial real estate loans. Decreasing levels of the trends and trends in delinquencies was the primary driver of the decrease in qualitative factor percentages for consumer loans, residential loans, and home equity lines of credit.

The ending reserve balance for commercial loans, commercial real estate loans, and residential loans increased as compared to the prior end of year reserve balances, while the ending reserve balances for consumer loans and home equity lines of credit decreased across the particular portfolios as compared to the prior end of year reserve balances. The increase within the commercial loans, commercial real estate loans, and residential loans ending reserve balances were primarily affected by the significant increases in volume within the portfolios and the decrease within the consumer loans and home equity lines of credit ending reserve balances were driven by the minimal growth experienced within those portfolios. Overall, a lower level of charge-off and recovery activity had been experienced in 2022 and 2021 as compared to prior years.

3. LOANS (Continued)

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $3.1 million adequate to cover loan losses inherent in the loan portfolio, at December 31, 2022. The following tables presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of December 31:

2022	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 426,570	$ 1,139,253	$ 61,617	$ 957,582	$ 211,667	$ 90,502	$ 2,887,191
Charge-offs	-	-	-	-	(5,866)	-	(5,866)
Recoveries	18,007	-	5,327	1,598	-	-	24,932
Provision	68,545	61,056	(22,845)	135,374	(6,892)	(80,238)	155,000
Ending Balance	$ 513,122	$ 1,200,309	$ 44,099	$ 1,094,554	$ 198,909	$ 10,264	$ 3,061,257
Ending balance: individually evaluated for impairment	$ -	$ -	$ 12,489	$ 18,426	$ -	$ -	$ 30,915
Ending balance: collectively evaluated for impairment	$ 513,122	$ 1,200,309	$ 31,610	$ 1,076,128	$ 198,909	$ 10,264	$ 3,030,342
Loans Receivable:							
Ending Balance	$ 33,439,686	$ 139,823,997	$ 6,340,713	$ 115,594,452	$ 28,130,006	$ -	$ 323,328,854
Ending balance: individually evaluated for impairment	$ -	$ 2,201,973	$ 206,305	$ 81,014	$ -	$ -	$ 2,489,292
Ending balance: collectively evaluated for impairment	$ 33,439,686	$ 137,622,024	$ 6,134,408	$ 115,513,438	$ 28,130,006	$ -	$ 320,839,562

2021	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 458,808	$ 1,431,365	$ 75,326	$ 804,135	$ 197,122	$ 55,993	$ 3,022,749
Charge-offs	-	-	(333)	(66,555)	(248)	-	(67,136)
Recoveries	11,803	-	750	19,025	-	-	31,578
Provision	(44,041)	(292,112)	(14,126)	200,977	14,793	34,509	(100,000)
Ending Balance	$ 426,570	$ 1,139,253	$ 61,617	$ 957,582	$ 211,667	$ 90,502	$ 2,887,191
Ending balance: individually evaluated for impairment	$ -	$ -	$ 33,349	$ 46,171	$ -	$ -	$ 79,520
Ending balance: collectively evaluated for impairment	$ 426,570	$ 1,139,253	$ 28,268	$ 911,411	$ 211,667	$ 90,502	$ 2,807,671
Loans Receivable:							
Ending Balance	$ 23,972,583	$ 129,913,215	$ 5,354,449	$ 89,484,528	$ 25,758,304	$ -	$ 274,483,079
Ending balance: individually evaluated for impairment	$ -	$ 2,505,862	$ 223,542	$ 83,211	$ -	$ -	$ 2,812,615
Ending balance: collectively evaluated for impairment	$ 23,972,583	$ 127,407,353	$ 5,130,907	$ 89,401,317	$ 25,758,304	$ -	$ 271,670,464

3. LOANS (Continued)

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2022 and 2021, respectively. The grading 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.

Management utilizes a seven-point internal risk rating system to monitor the credit quality of the overall portfolio. The first three categories are considered not criticized and are aggregated as Pass-rated. Pass-rated loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. The criticized rating categories utilized by management generally follow bank regulatory definitions. Special Mention category loans have a potential weakness or risk that exists, which could cause a more serious problem if not corrected. The Substandard category loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. The Doubtful category loans 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. The Loss category loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

	As of December 31, 2022		
	Commercial	Commercial Real Estate	Total
Pass	$ 32,129,370	$ 134,205,730	$ 166,335,100
Special mention	258,703	1,757,291	2,015,994
Substandard	1,051,613	3,860,976	4,912,589
Doubtful	-	-	-
Loss	-	-	-
Total	$ 33,439,686	$ 139,823,997	$ 173,263,683

	As of December 31, 2021		
	Commercial	Commercial Real Estate	Total
Pass	$ 22,477,406	$ 124,183,893	$ 146,661,299
Special mention	516,957	2,053,197	2,570,154
Substandard	978,220	3,676,125	4,654,345
Doubtful	-	-	-
Loss	-	-	-
Total	$ 23,972,583	$ 129,913,215	$ 153,885,798

3. LOANS (Continued)

Credit Quality Information (Continued)

For consumer loans, residential loans, and home equity lines of credit, the Company evaluates credit quality based on whether the loan is considered performing or non-performing. The following tables present the balances of these loans by classes of the loan portfolio based on payment performance as of December 31:

	2022			
	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 6,314,033	$ 115,181,503	$ 27,953,172	$ 149,448,708
Nonperforming	26,680	412,949	176,834	616,463
Total	$ 6,340,713	$ 115,594,452	$ 28,130,006	$ 150,065,171

	2021			
	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 5,316,130	$ 89,118,145	$ 25,473,946	$ 119,908,221
Nonperforming	38,319	366,383	284,358	689,060
Total	$ 5,354,449	$ 89,484,528	$ 25,758,304	$ 120,597,281

Age Analysis of Past Due Loans Receivable by Class

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31:

	2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Nonaccrual	Total Loans
Commercial loans	$ -	$ -	$ -	$ -	$ 31,481,715	$ 1,957,971	$ 33,439,686
Commercial real estate loans	-	-	-	-	139,823,997	-	139,823,997
Consumer loans	29,943	-	-	29,943	6,284,090	26,680	6,340,713
Residential loans	-	-	-	-	115,181,503	412,949	115,594,452
Home equity lines of credit	-	57,063	-	57,063	27,896,109	176,834	28,130,006
Total	$ 29,943	$ 57,063	$ -	$ 87,006	$ 320,667,414	$ 2,574,434	$ 323,328,854

	2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Nonaccrual	Total Loans
Commercial loans	$ -	$ -	$ -	$ -	$ 21,743,642	$ 2,228,941	$ 23,972,583
Commercial real estate loans	-	-	-	-	129,913,215	-	129,913,215
Consumer loans	6,023	-	-	6,023	5,310,107	38,319	5,354,449
Residential loans	964,858	-	105,430	1,070,288	88,153,287	260,953	89,484,528
Home equity lines of credit	-	-	104,263	104,263	25,473,946	180,095	25,758,304
Total	$ 970,881	$ -	$ 209,693	$ 1,180,574	$ 270,594,197	$ 2,708,308	$ 274,483,079

Interest income that would have been recorded had nonaccrual loans not been placed on nonaccrual status was $143,316 and $127,573 in 2022 and 2021, respectively.

3. LOANS (Continued)

Impaired Loans

The following tables present the recorded investment and unpaid principal balances of impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial loans	$ -	$ 44,466	$ -	$ -	$ 1,926
Commercial real estate loans	2,201,973	2,246,074	-	2,448,778	96,415
Consumer loans	-	-	-	-	-
Residential loans	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
	$ 2,201,973	$ 2,290,540	$ -	$ 2,448,778	$ 98,341
With an allowance recorded:					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans	-	-	-	-	-
Consumer loans	206,305	209,490	12,489	216,458	11,693
Residential loans	81,014	81,014	18,426	82,042	3,411
Home equity lines of credit	-	-	-	-	-
	$ 287,319	$ 290,504	$ 30,915	$ 298,500	$ 15,104
Total:					
Commercial loans	$ -	$ 44,466	$ -	$ -	$ 1,926
Commercial real estate loans	2,201,973	2,246,074	-	2,448,778	96,415
Consumer loans	206,305	209,490	12,489	216,458	11,693
Residential loans	81,014	81,014	18,426	82,042	3,411
Home equity lines of credit	-	-	-	-	-
	$ 2,489,292	$ 2,581,044	$ 30,915	$ 2,747,278	$ 113,445

3. LOANS (Continued)

Impaired Loans (Continued)

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial loans	$ -	$ 15,664	$ -	$ 87,586	$ 5,030
Commercial real estate loans	2,505,862	2,549,963	-	3,594,625	111,949
Consumer loans	-	-	-	11,917	518
Residential loans	-	-	-	191,703	2,359
Home equity lines of credit	-	-	-	-	-
	$ 2,505,862	$ 2,565,627	$ -	$ 3,885,831	$ 119,856
With an allowance recorded:					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans	-	-	-	-	-
Consumer loans	223,542	223,542	33,349	229,085	8,003
Residential loans	83,211	83,211	46,171	84,323	3,387
Home equity lines of credit	-	-	-	-	-
	$ 306,753	$ 306,753	$ 79,520	$ 313,408	$ 11,390
Total:					
Commercial loans	$ -	$ 15,664	$ -	$ 87,586	$ 5,030
Commercial real estate loans	2,505,862	2,549,963	-	3,594,625	111,949
Consumer loans	223,542	223,542	33,349	241,002	8,521
Residential loans	83,211	83,211	46,171	276,026	5,746
Home equity lines of credit	-	-	-	-	-
	$ 2,812,615	$ 2,872,380	$ 79,520	$ 4,199,239	$ 131,246

As of December 31, 2022, the Company did not have any foreclosed real estate property obtained by physical possession and did not have any loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdiction.

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $2,245,289 and $2,535,694, as of December 31, 2022 and 2021, respectively. The Company allocated $30,916 and $79,520 of specific allowance for those loans at December 31, 2022 and 2021, respectively.

There were no new troubled debt restructurings for the year ended December 31, 2022. The table below summarizes the Company's troubled debt restructurings before and after modifications for the year ended December 31, 2021:

	2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial real estate loans	3	$ 2,083,971	$ 2,041,971

3. LOANS (Continued)

Troubled Debt Restructurings (Continued)

The commercial real estate loans and consumer loans were modified by lowering the stated interest rates and/or extending the terms of the original loans. No principal reductions were made. Additional interest income of $3,380 and $18,615 would have been recognized for the years ended December 31, 2022 and 2021, respectively, at the original interest rate as compared to the adjusted interest rate on the troubled debt restructurings.

The Company did not have any payment defaults on troubled debt restructuring contracts during 2022 and 2021.

Related Party Loans

The amount of loans to principal officers, directors, and their affiliates at December 31, 2022 and 2021 totaled approximately $854,230 and $1,022,129, respectively.

4. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2022	2021
Land and land improvements	$ 2,026,056	$ 2,026,056
Building and leasehold improvements	6,753,791	6,739,923
Furniture, fixtures, and equipment	2,698,725	2,690,633
	11,478,572	11,456,612
Less accumulated depreciation	(4,098,959)	(3,807,482)
Total	$ 7,379,613	$ 7,649,130

Depreciation charged to operations was $314,717 in 2022 and $305,764 in 2021.

5. LEASES

The Bank enters into leases in the normal course of business primarily for financial operations. The Bank's leases have terms greater than 12 months which may include renewal or termination options. The Bank includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. In addition, the Bank has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Bank has also elected not to recognize leases with original terms of 12 months or less on the Bank's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The Bank's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

5. LEASES (Continued)

A right-of-use asset in the amount of $45,500 is recorded on the balance sheet, as well as a lease obligation for the same amount. Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2022, are as follows:

Less than 1 year	14,268
1 to 3 years	29,532
3 to 5 years	7,608
Greater than 5 years	-
Total	51,408
Less imputed interest	5,908
Net lease liabilities	45,500

6. DEPOSITS

Time deposits at December 31, 2022, mature $70,938,853, $22,526,573, $9,199,544, $3,067,942, $5,075,215, and $634,174 during 2023, 2024, 2025, 2026, 2027 and thereafter respectively.

The aggregate amount of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000 totaled $8,373,756 and $7,221,091 at December 31, 2022 and 2021, respectively.

Included in certificates of deposit at December 31, 2022 and 2021, were $17,489,826 and $21,156,324, respectively, obtained through the Certificate of Deposit Account Registry Services (CDARS). This service allows deposit customers to maintain fully insured balances in excess of the $250,000 FDIC insurance limit without the inconvenience of having multi-banking relationships. Under the reciprocal program, which the Company is currently participating in, customers agree to allow the Company to place their deposits with participating banks in the CDARS program, in insurable amounts under $250,000. In exchange, other banks in the program agree to place their deposits with Portage Community Bank, also in insurable amounts under $250,000.

Related-party deposits were $1,392,990 and $1,586,135 at December 31, 2022 and 2021, respectively.

7. FHLB ADVANCES

The following table sets forth information concerning other borrowings with the FHLB:

Description	Maturity range from	Maturity range to	Weighted-average interest rate	At December 31, 2022	At December 31, 2021
Mortgage match - amortizing	07/01/23	02/01/30	1.88 %	$ 3,680,965	$ 5,154,359
Mortgage match - non-amortizing	02/15/24	01/31/25	2.24	4,500,000	7,000,000
Cash mgmt. advance - non-amortizing	12/29/22	01/05/23	4.38	2,500,000	-
Total			2.62 %	$ 10,680,965	$ 12,154,359

At December 31, 2022, the Bank had a cash management line of credit enabling it to borrow up to $15.0 million from the Federal Home Loan Bank of Cincinnati (“FHLB”). The line of credit must be renewed on an annual basis. There was $2.50 million outstanding from the line of credit outstanding as of December 31, 2022 and no borrowings outstanding from the line of credit outstanding as of December 31, 2021. The Bank has a remaining borrowing capacity of $87.4 million at December 31, 2022.

7. FHLB ADVANCES (Continued)

Borrowings from FHLB are secured with a blanket security agreement and required investment in FHLB member bank stock. As part of the security agreement, the Bank maintains unencumbered qualifying assets (principally 1-4 family residential mortgage loans) in an amount at least as much as the advances from the FHLB. Additionally, the Bank's FHLB stock of $982,400 and $1,111,400 at December 31, 2022 and 2021, respectively, is pledged to secure these advances. Maturities over the next five years and thereafter were as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2023	$ 3,691,926	2.12 %
2024	3,442,401	1.84
2025	2,647,977	2.01
2026	437,939	2.02
2027	297,182	1.87
Thereafter	163,540	1.80
Total	$ 10,680,965	2.62 %

Monthly principal and interest payments are due on the mortgage match fixed rate amortizing borrowings; additionally, a 10 percent principal curtailment is due on the borrowing's anniversary date. Monthly interest payments are due on the mortgage match fixed rate non-amortizing borrowings and principal payments are paid in total at maturity.

The Company and Bank each maintain a $1,000,000 unsecured line of credit with another financial institution. No amounts were outstanding under these lines of credit at December 31, 2022 and 2021.

8. SUBORDINATED DEBENTURES

In March 2004, Portage Bancshares Capital Trust I, a trust formed by the Company, issued $2,500,000 of floating rate, trust preferred securities as part of a pooled offering of such securities. The Company issued $2,450,000 subordinated debentures to the trust in exchange for the proceeds of the offering. The debentures and related debt issuance costs represent the sole assets of the trust. The trust is not consolidated with the Company's financial statements, but rather the subordinated debentures are shown as a liability. The trust preferred securities must be redeemed no later than April 23, 2034. The Company had the option to call the trust preferred securities at par at five years from date of issuance. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years.

The subordinated debentures may be included in Tier I capital with certain limitations applicable under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85 percent, which was 7.59 percent and 2.95 percent at December 31, 2022 and 2021, respectively.

9. INCOME TAXES

The provision for federal income taxes consists of:

	2022	2021
Current payable	$ 717,818	$ 410,256
Deferred	(76,799)	(33,695)
Total provision	$ 641,019	$ 376,561

9. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2022 and 2021, in view of the Company's ability to carryback to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential. The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2022	2021
Deferred tax assets		
Allowance for loan losses	$ 437,666	$ 405,116
Accrued expenses and employee benefits	836,881	776,062
Unrealized loss on available-for-sale securities	2,897,856	-
Deferred loan fees	60,521	46,788
Deferred tax assets	4,232,924	1,227,966
Deferred tax liabilities:		
Depreciation	102,077	95,490
Unrealized gain on available-for-sale securities	-	11,118
Federal Home Loan Bank stock dividends	28,119	28,119
Prepaid expenses	28,321	31,702
Security accretion	30,547	3,992
Stock-based compensation	9,615	9,073
Deferred tax liabilities	198,679	179,494
Net deferred tax assets	$ 4,034,245	$ 1,048,472

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

	2022		2021	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 809,050	21.0 %	$ 533,972	21.0 %
Tax-exempt interest	(50,045)	(1.3)	(115,257)	(4.5)
Earnings on bank-owned life insurance	(112,208)	(2.9)	(51,892)	(2.0)
Other	(5,778)	-	9,738	0.4
Actual tax expense and effective rate	$ 641,019	16.8 %	$ 376,561	14.9 %

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

9. INCOME TAXES (Continued)

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the income taxes in the Consolidated Statement of Income. With few exceptions, the Bank is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2019.

10. EMPLOYEE BENEFITS

401(k) Plan

The Company sponsors a 401(k) plan covering substantially all employees. The Company matches contributions at the rate of 100 percent of each participant's voluntary contributions, limited to a maximum of 6 percent of a covered employee's annual compensation. In addition to the Company's matching contribution, a profit-sharing contribution to the plan can be made at the discretion of the Board. Employee voluntary contributions and employers' matching contributions are vested immediately. The expense related to the plan was $301,119 and $305,398 for the years ended December 31, 2022 and 2021, respectively.

Supplemental Retirement Plan

The Company sponsors a supplemental retirement plan ("SERP") which covers several key members of management. Participants will receive annually a percentage of their base compensation at the time of their retirement for a maximum of ten years. The liability recorded at December 31, 2022 and 2021, was $2,186,977 and $2,145,762, respectively. The expense related to the plan was $172,212 and $117,911 for 2022 and 2021, respectively. There was $130,997 in distributions to participants in 2022 and no distributions to participants in 2021.

Director Deferral Plan

The Company sponsors a director deferral plan to provide post-separation payments to participating directors who elect to defer their directors' fees. The plan allows participating directors to defer a portion or all director fees during any plan year. The participants' deferral account balance within the plan is credited annually with interest, based on the Bank's return on equity on a tax-deferred basis. The liability recorded at December 31, 2022 and 2021, was $1,798,172 and $1,549,772, respectively. The expense related to the plan was $343,176 and $306,388 for 2022 and 2021, respectively.

Stock Option Plan

The Company has two shared based compensation plans. The Company's 2004 and 2016 Stock Inventive Plans, which are shareholder approved, both permit the grant of share option s to its directors, officers, and other key employees of the Company and its subsidiaries for up to 200,000 and 50,000 shares of common stock, respectively. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant. Vesting occurs at 20 percent per year of service.

10. EMPLOYEE BENEFITS (Continued)

The following table presents share data related to the outstanding options:

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	2022	Weighted-Average Exercise Price	2021	Weighted-Average Exercise Price
Outstanding, January 1	5,265	$ 75.68	6,115	$ 74.65
Granted	-	-	-	-
Exercised	(1,485)	75.74	(850)	68.24
Forfeited	(100)	67.65	-	-
Outstanding, December 31	3,680	$ 75.88	5,265	$ 75.68
Exercisable at year-end	3,680	$ 75.88	5,265	$ 75.68

The following table summarizes the characteristics of stock options at December 31, 2022:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Remaining Average Life	Average Exercise Price	Shares	Average Exercise Price
1/31/2013	71.50	750	0.08	$ 71.50	750	$ 71.50
2/19/2014	77.00	1,350	1.13	77.00	1,350	77.00
4/23/2014	77.00	1,580	1.30	77.00	1,580	77.00
		3,680		$ 75.88	3,680	$ 75.88

11. LOAN COMMITMENTS

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

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

	2022		2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused business lines of credit	$ 1,924,760	$ 41,251,128	$ 2,933,583	$ 33,138,682
Unused construction lines of credit	1,661,471	4,145,349	3,570,511	3,798,153
Unused consumer lines of credit	39,744	40,406,701	44,181	34,124,699
Standby letters of credit	-	50,000	-	60,000
Total	$ 3,625,975	$ 85,853,178	$ 6,548,275	$ 71,121,534

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 2.50 percent to 18.00 percent at December 31, 2022 and 2.50 percent to 18.00 percent at December 31, 2021.

11. LOAN COMMITMENTS (Continued)

Standby letters of credit represent conditional commitments issued to guarantee performance of a customer to a third party. The coverage period for these instruments is typically a one-year period with renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments.

12. REGULATORY RESTRICTIONS

Contingent Liabilities

The Company is involved in various legal actions from the normal course of business activities. Management believes the liability, if any; arising from such actions will not have a material adverse effect on the Company’s financial position.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount up to 10 percent of the Bank’s common stock and capital surplus.

Dividends

The Bank is subject to a dividend restriction that generally limits the amount of dividends that can be paid by an Ohio state-chartered bank. Under the Ohio Banking Code, cash dividends may not exceed net profits as defined for that year, combined with retained net profits for the two preceding years less any required transfers to surplus. Under this formula, the amount available for payment of dividends in 2022 is $4,460,766 plus 2023 profits retained up to the date of the dividend declaration.

13. REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as in asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notifications categorized the Company as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

Actual and required capital amounts and ratios are presented below at year-end.

13. REGULATORY CAPITAL MATTERS (Continued)

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2022						
Total Capital (to risk-weighted assets):						
Consolidated	$ 51,467,403	15.32 %	$ 26,869,019	8.00 %	$ 33,586,274	10.00
Portage Community Bank	53,478,523	15.93	26,862,320	8.00	33,577,900	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 48,406,146	14.41 %	$ 20,151,764	6.00 %	$ 26,869,019	8.00
Portage Community Bank	50,417,266	15.02	20,146,740	6.00	26,862,320	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 48,406,146	14.41 %	$ 15,113,823	4.50 %	$ 21,831,078	6.50
Portage Community Bank	50,417,266	15.02	15,110,055	4.50	21,825,635	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 48,406,146	10.15 %	$ 19,073,404	4.00 %	$ 23,841,755	5.00
Portage Community Bank	50,417,266	10.28	19,614,240	4.00	24,517,800	5.00

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Total Capital (to risk-weighted assets):						
Consolidated	$ 48,512,806	16.95 %	$ 22,901,498	8.00 %	$ 28,626,872	10.00
Portage Community Bank	50,546,050	17.66	22,895,680	8.00	28,619,600	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 45,625,615	15.94 %	$ 17,176,123	6.00 %	$ 22,901,498	8.00
Portage Community Bank	47,658,859	16.65	17,171,760	6.00	22,895,680	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 45,625,615	15.94 %	$ 12,882,092	4.50 %	$ 18,607,467	6.50
Portage Community Bank	47,658,859	16.65	12,878,820	4.50	18,602,740	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 45,625,615	9.54 %	$ 19,139,000	4.00 %	$ 23,923,750	5.00
Portage Community Bank	47,658,859	9.94	19,170,080	4.00	23,962,600	5.00

14. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by U.S. generally accepted accounting principles are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

This hierarchy requires the use of observable market data when available.

The following tables set forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis at December 31:

	2022			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements on a recurring basis:				
Securities available for sale:				
U.S. government sponsored entities and agencies	$ 28,455,352	$ -	$ 28,455,352	$ -
U.S. government sponsored entities and agencies	21,408,425	-	21,408,425	-
Obligations of states and political subdivisions	28,505,623	-	28,505,623	-
Corporate bonds	500,000	-	500,000	-
Mortgage-backed securities: residential	26,835,577	-	26,835,577	-
Mortgage-backed securities: commercial	2,633,859	-	2,633,859	-
Collateralized mortgage obligations	8,028,165	-	8,028,165	-
Total	$ 116,367,001	$ -	$ 116,367,001	$ -

14. FAIR VALUE MEASUREMENTS (Continued)

	2021			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements on a recurring basis:				
Securities available for sale:				
U.S. government sponsored entities and agencies	$ 15,926,367	$ -	$ 15,926,367	$ -
U.S. government sponsored entities and agencies	16,769,607	-	16,769,607	-
Obligations of states and political subdivisions	34,632,002	-	34,632,002	-
Mortgage-backed securities: residential	31,728,536	-	31,728,536	-
Mortgage-backed securities: commercial	3,856,238	-	3,856,238	-
Collateralized mortgage obligations	10,319,224	-	10,319,224	-
Total	$ 113,231,974	$ -	$ 113,231,974	$ -

The Company's investment securities are valued by a third-party pricing service commonly used in the banking industry utilizing observable inputs. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of investment securities with similar characteristics and, because many fixed-income investment securities do not trade on a daily basis, apply available information through processes such as benchmark yield curves, benchmarking of like investment securities, sector groupings, and matrix pricing. In addition, model processes, such as an option adjusted spread model, are used to develop prepayment estimates and interest rate scenarios for investment securities with prepayment features.

Management uses a recognized third-party pricing service to obtain fair values for the Company's fixed income securities portfolio. Documentation is maintained as to the methodology and summary of inputs used by the pricing service for the various types of securities, and management notes that the servicer maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Management does not have access to all of the individual specific assumptions and inputs used for each security. The significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

Based on management's review of the methodology and summary of inputs used, management has concluded these assets are properly classified as Level 2 assets.

14. FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth the Company's financial and non-financial assets by level within the fair value hierarchy that were measured at fair value on a non-recurring basis at December 31:

	2022							
		Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets:								
Impaired loans	$	2,458,377	$	-	$	-	$	2,458,377

	2021							
		Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets:								
Impaired loans	$	2,733,095	$	-	$	-	$	2,733,095
Other real estate owned		47,320		-		-		47,320

Impaired loans that are collateral-dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secures the impaired loan include: quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input.

Other real estate owned ("OREO") is measured at fair value, less cost to sell at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management. The assets are carried at fair value, less cost to sell. Income and expense from operations and changes in valuation allowance are included in the net expenses from OREO.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company has utilized level III inputs to determine fair value at December 31:

	2022				
		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Impaired loans (collateral-dependent)	$	2,458,377	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 39.0% (23.7%)

	2021				
		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Impaired loans (collateral-dependent)	$	2,733,095	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 39.0% (23.7%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include various Level III inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions, aging, and/or estimated liquidation expenses incurred when selling collateral. The range and weighted average of appraisal adjustments and liquidation expenses are presented as a percentage of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

15. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of the Company's financial instruments at December 31 is as follows:

	2022			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 9,356,281	$ 9,356,281	$ -	$ -
Debt securities available for sale	116,367,001	-	116,367,001	-
Debt securities held to maturity	3,690,000	-	3,256,948	-
Loans held for sale	278,822	278,822	-	-
Net loans	319,979,401	-	-	300,823,000
Bank-owned life insurance	11,072,877	11,072,877	-	
Regulatory stock	1,346,050	1,346,050	-	
Accrued interest receivable	1,743,359	1,743,359	-	
Financial liabilities:				
Deposits	$ 419,683,453	$ 308,241,152	$ -	$ 108,223,000
Federal Home Loan Bank advances	10,680,965	-	-	10,311,000
Subordinated debentures	2,450,000	-	-	2,388,750
Accrued interest payable	298,849	298,849	-	-

	2021			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 62,011,289	$ 62,011,289	$ -	$ -
Debt securities available for sale	113,231,974	-	113,231,974	-
Debt securities held to maturity	3,190,000	-	3,162,202	-
Loans held for sale	1,593,086	1,593,086	-	-
Net loans	271,373,088	-	-	270,330,000
Bank-owned life insurance	10,834,566	10,834,566	-	
Regulatory stock	1,475,050	1,475,050	-	
Accrued interest receivable	1,480,383	1,480,383	-	
Financial liabilities:				
Deposits	$ 409,134,173	$ 265,010,715	$ -	$ 86,843,000
Federal Home Loan Bank advances	12,154,359	-	-	12,414,154
Subordinated debentures	2,450,000	-	-	2,290,750
Accrued interest payable	81,557	81,557	-	-

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

15. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Regulatory Stock, Accrued Interest Receivable, and Accrued Interest Payable

The fair value is equal to the current carrying value.

Debt Securities Available for Sale and Held to Maturity

The fair value of debt securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Loans Held for Sale

The carrying amount of loans held for sale is the amount funded and approximates fair value due to the insignificant time between origination and date of sale.

Net Loans

The fair value is estimated by discounting the future cash flows using a simulation model that estimates future cash flows through the utilization of current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates of fair value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Deposits, Federal Home Loan Bank Advances, and Subordinated Debentures

Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end. Fair value for time deposits, Federal Home Loan Bank advances, and subordinated debentures is estimated by discounting the future cash flows using a simulation model which estimates future cash flows and constructs discount rates that consider reinvestment opportunities, operating expenses, noninterest income, credit quality, and prepayment risk.

15. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 10.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax at year-end:

	Net Unrealized Gains (Losses) Investment Securities	
	2022	2021
Accumulated other comprehensive income (loss), January 1	$ 41,826	$ 1,572,948
Other comprehensive gain (loss) before reclassification, net of tax	(10,943,284)	(1,466,749)
Amount reclassified from accumulated other comprehensive income	-	(64,373)
Total other comprehensive income (loss)	(10,943,284)	(1,531,122)
Accumulated other comprehensive income (loss), December 31	$ (10,901,458)	$ 41,826

There were no significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2022. The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2021:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item on the Consolidated Statement of Income
Unrealized gains on available-for-sale securities	$ (81,485)	Net gains on sales of investment securities
Realized gains on securities available-for-sale	17,112	Income taxes
	$ (64,373)	Net of tax

17. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2022, through March 28, 2023, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require additional adjustments to or disclosure in the consolidated financial statements, which were issued on March 28, 2023.

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Margaret F. Medzie, *President*
Thomas S. Siciliano, *Treasurer*
Timothy E. Crock, *Secretary*

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Richard J. Coe, *Director*
Timothy E. Crock, *Director*
James V, Damicone, *Director*
Paul Huchok, *Director*
Thomas S. Siciliano, *Vice Chairman of the Board*
Lee L. Jenior, *Director*
Kevin T. Lewis, *Director*
Dr. Aaron A. Moats, *Director*
Dr. Emilio Ferrara, *Director Emeritus*
Richard L. Leonard, *Director Emeritus*

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Donald D. Herman
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Vice President, Cuyahoga Falls Office Manager
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Pamela M. England
Marketing Director
Michelle A. Spellman
Operations Officer

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Vice President, Real Estate Division
Dennis P. Juvan
Registered Representative, Portage Community Financial Services

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