PORTAGE BANCSHARES, INC.™

ANNUAL REPORT

2023

PORTAGE BANCSHARES, INC.

RAVENNA, OHIO

DECEMBER 31, 2023

PORTAGE BANCSHARES, INC.
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2023

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, 2023. Your trust and support continue to be the cornerstone of our success.

2023 was another transformative year for our bank as important changes occurred within our leadership team. On December 31, 2023, our Chief Executive Officer ("CEO"), Kevin T. Lewis, officially retired from the bank after an outstanding career in banking, with the past 25 years being instrumental in the development, growth, and overall success of PCB since the bank's establishment in 1998. Mr. Lewis succeeded our founding CEO, Mr. Richard J. Coe, on July 1, 2021, as CEO following Mr. Coe's retirement from the bank. Mr. Lewis's unwavering support of our bank since the bank's establishment has been key to our growth and financial success. I have had the honor and privilege to serve with Mr. Lewis since PCB's founding in 1998. I want to extend our best wishes and express our sincere appreciation for all of Mr. Lewis's years of service and dedication to PCB. Mr. Lewis continues to serve on both the PCB's and PBI's Board of Directors as an outside Director. Mr. Lewis is succeeded by Ann H. Durr and myself, Constance ("Connie") M. Bennett, as PCB's new President and PCB's new Chief Executive Officer, respectively. Mrs. Durr had operated as the bank's Chief Retail Officer and Summit County Market President and has been very influential with the bank's expansion into Summit County through the establishment of our Cuyahoga Falls Office in 2020. Other key members of the bank's Leadership Team include Donald D. Herman, Chief Financial Officer, Robert S. Standardi, Chief Risk Officer and Controller, Eric M. Decker, Chief Lending Officer, Adriana M. Rucci-Kobus, Chief Operations Officer, and James M. Williams, Chief Credit Officer. Collectively, our Leadership Team works effectively with our Officer Team and staff to continue building on the bank's strong foundation while forging new paths in community engagement, economic development, and the overall financial and operational growth of the bank. As much as the financial institution industry has changed since we first opened our doors in 1998, we believe strongly that there continues to be a viable future for well-run community banks that have the ability to grow, remain vigilant with adapting to industry trends, compete with technological advancements, and provide an exceptional customer experience.

As we look back at 2023, we entered the year with a sense of optimism and gratitude as 2023 marked the 25th anniversary of our founding in 1998. There's no doubt 2023 provided one of the most difficult operating environments for banks since the Great Recession. Starting early in 2023, multiple high-profile banks failed and spread fear about the financial sector as a whole. The elevated interest rate environment and continued inflationary pressures from the previous year affected the bank's revenue and earnings growth. The Federal Reserve has taken approximately $1 trillion from the money supply, intensifying the battle for deposits in the banking industry. And an inverted yield curve made the whole situation even more difficult to manage.

Despite these headwinds, I am pleased to report a year of solid performance while continuing to operate as a safe and sound community bank. While it is typical to see both loans and deposits decline in a rising interest rate environment, we have continued to add loans and grow our deposits in an effort to maintain a well-structured balance sheet moving forward. In 2023, the bank exceeded the $500 million total asset threshold and achieved the best earnings in our history. While we continue to see challenges in our industry and economic environment, the bank continues to operate as a strong, well-capitalized, well-diversified community bank with strong asset quality and a strong balance sheet established to carry us through challenging times. Overall, we experienced a tremendous year as far as lending initiatives, expanded deposit growth results, and operational success.

Our steady strong performance enabled our Board of Directors to increase the cash dividend to $1.25 per share in 2023 from $1.20 per share in 2021 – a 4.17% increase year-over-year. Dividends to shareholders are at the highest level in our history as the Company continues to utilize its strong earnings to increase the annual shareholder dividend with 2023 representing the sixteenth consecutive year that PBI has declared a dividend since introducing a formal dividend practice. To navigate our continued success and growth strategy, we continue to balance increasing dividends with earnings retention in order to support the bank's well-capitalized capital levels.

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,

Constance ("Connie") M. Bennett
Chief Executive Officer

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Portage Bancshares, Inc. and subsidiary (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

Responsibilities of Management for the Consolidated Financial Statements (continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Bank'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank'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
April 2, 2024

PORTAGE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 8,299,942	$ 9,170,356
Interest-bearing deposits in other financial institutions	5,732	113,925
Federal funds sold	-	72,000
Cash and cash equivalents	8,305,674	9,356,281
Debt securities available for sale	103,828,095	116,367,001
Debt securities held to maturity	3,690,000	3,690,000
Less allowance for credit losses	43,090	-
Net debt securities held to maturity	3,646,910	3,690,000
Loans held for sale	499,907	278,822
Loans	360,278,101	323,040,658
Less allowance for credit losses	3,187,417	3,061,257
Net loans	357,090,684	319,979,401
Regulatory stock	1,384,250	1,346,050
Premises and equipment, net	7,186,472	7,379,613
Bank-owned life insurance	12,326,206	11,072,877
Accrued interest receivable	2,062,237	1,743,359
Other assets	4,395,415	5,291,745
TOTAL ASSETS	$ 500,725,850	$ 476,505,149
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 96,859,627	$ 95,604,386
Interest-bearing demand	80,324,624	60,369,091
Savings	110,142,157	152,267,675
Time	147,352,794	111,442,301
Total deposits	434,679,202	419,683,453
Federal funds purchased	135,000	-
Federal Home Loan Bank advances	14,989,039	10,680,965
Subordinated debentures	2,450,000	2,450,000
Accrued interest payable and other liabilities	6,986,715	6,116,042
TOTAL LIABILITIES	459,239,956	438,930,460
STOCKHOLDERS' EQUITY		
Common stock, no par value; 800,000 shares authorized, (Issued 560,445 and Outstanding 515,433 as of 12/31/23) (Issued 559,150 and Outstanding 514,138 as of 12/31/22)	22,183,234	22,083,076
Retained earnings	33,170,690	30,580,771
Accumulated other comprehensive income	(9,680,330)	(10,901,458)
Treasury stock, at cost (45,012 shares as of 12/31/23 and 45,012 shares as of 12/31/22)	(4,187,700)	(4,187,700)
TOTAL STOCKHOLDERS' EQUITY	41,485,894	37,574,689
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 500,725,850	$ 476,505,149

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF INCOME

		Year Ended December 31,		
		2023		2022
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$	17,288,128	$	13,071,583
Federal funds sold and other interest income		355,131		219,534
Taxable securities		2,174,093		1,793,581
Tax-exempt securities		398,283		437,696
Other dividend income		90,460		64,906
Total interest and dividend income		20,306,095		15,587,300
INTEREST EXPENSE				
Deposits		5,816,134		1,594,349
Federal Home Loan Bank advances		241,438		205,647
Subordinated debentures		211,569		122,708
Total interest expense		6,269,141		1,922,704
NET INTEREST INCOME		14,036,954		13,664,596
Provision for credit losses		239,324		155,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		13,797,630		13,509,596
NONINTEREST INCOME				
Service charges on deposit accounts		176,308		150,945
Gain on sale of loans		506,006		714,213
Earnings on bank-owned life insurance		253,329		238,310
Investment banking fees and commissions		504,808		464,102
Net gains from other real estate owned		-		25,608
Other income		654,713		591,282
Total noninterest income		2,095,164		2,184,460
NONINTEREST EXPENSE				
Salaries and employee benefits		7,118,643		7,094,604
Net occupancy and equipment expenses		744,655		818,000
Data processing		643,967		410,025
Professional fees		242,925		268,034
Marketing and business development		363,297		409,737
Financial institutions tax		261,382		405,000
Federal deposit insurance		223,711		129,901
Other expense		2,372,255		2,306,134
Total noninterest expense		11,970,835		11,841,435
Income before income taxes		3,921,959		3,852,621
Income taxes		670,002		641,019
NET INCOME	$	3,251,957	$	3,211,602
EARNINGS PER SHARE				
Basic	$	6.32	$	6.26
Diluted		6.30		6.24

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2023	2022
Net income	$ 3,251,957	$ 3,211,602
Other comprehensive income (loss):		
Unrealized holding gain (loss) arising during the period	1,545,732	(13,852,258)
Tax effect	(324,604)	2,908,974
Reclassification of debt securities (gains) losses recognized in net income	-	-
Tax effect	-	-
Total other comprehensive income (loss)	1,221,128	(10,943,284)
Comprehensive income (loss)	$ 4,473,085	$ (7,731,682)

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, 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				
Exercise of 1,485 shares of stock options	112,475				112,475
Tax benefits from exercise of stock options	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
Exercise of 1,295 shares of stock options	100,158				100,158
ASC 326 cumulative effect adjustment		(13,065)			(13,065)
Cash dividends paid ($1.25 per share)		(648,973)			(648,973)
Net income		3,251,957			3,251,957
Other comprehensive loss			1,221,128		1,221,128
Balance, December 31, 2023	$ 22,183,234	$ 33,170,690	$ (9,680,330)	$ (4,187,700)	$ 41,485,894

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2023	2022
OPERATING ACTIVITIES		
Net income	$ 3,251,957	$ 3,211,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	239,324	155,000
Depreciation of premises and equipment	299,602	314,717
Net amortization of investment securities	204,719	412,696
Gain on sale of loans	(506,006)	(714,213)
Originations of loans held for sale	(24,948,665)	(29,101,056)
Proceeds from sale of loans held for sale	24,727,580	30,415,319
Net realized gain on sales of other real estate owned	-	(25,608)
Stock-based compensation expense	26,387	79,160
Earnings on bank-owned life insurance	(253,329)	(238,310)
Deferred income taxes	(113,430)	(76,799)
Net amortization of deferred loan fees	51,415	75,389
Tax benefit from exercise of stock options	-	(4,446)
Net change in:		
Other assets	647,072	(645,986)
Accrued interest receivable	(318,878)	(262,976)
Other liabilities	374,209	833,297
Accrued interest payable	495,096	217,292
Net cash provided by operating activities	4,177,053	4,645,078
INVESTING ACTIVITIES		
Available for sale securities:		
Proceeds from maturities, prepayments, and calls	14,349,605	16,292,842
Purchases	(469,686)	(33,692,823)
Held to maturity securities:		
Proceeds from maturities, prepayments, and calls	100,000	-
Purchases	(100,000)	(500,000)
Proceeds from Federal Home Loan Bank stock	554,400	129,000
Purchase of Federal Home Loan Bank stock	(592,600)	-
Loan originations and payments, net	(36,852,926)	(48,122,489)
Additions to premises and equipment	(113,141)	(82,747)
Proceeds from premises and equipment	6,680	37,547
Purchase of company owned life insurance	(1,000,000)	-
Proceeds from sale of other real estate owned	-	72,928
Net cash used for investing activities	(24,117,668)	(65,865,742)
FINANCING ACTIVITIES		
Net change in deposits	14,995,749	10,549,280
Proceeds from Federal Home Loan Bank advances	8,000,000	2,500,000
Repayment of Federal Home Loan Bank advances	(3,691,926)	(3,973,394)
Proceeds from Federal Funds Purchased	135,000	-
Purchase of treasury stock	-	(11,585)
Tax benefit from exercise of stock options	-	4,446
Proceeds from exercise of stock options	100,158	112,475
Cash dividends paid	(648,973)	(615,566)
Net cash provided by financing activities	18,890,008	8,565,656
Increase (decrease) in cash and cash equivalents	(1,050,607)	(52,655,008)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,356,281	62,011,289
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,305,674	$ 9,356,281

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.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. The Company had no held-to-maturity securities classified as nonaccrual as of December 31, 2023 and December 31, 2022.

The Company adopted ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments effective January 1, 2023. Financial statement amounts related to Investment Securities recorded as of December 31, 2023 and for the period ending December 31, 2023 are presented in accordance with the accounting policies described in the following sections.

Allowance for Credit Losses – Held-to-Maturity Securities – After Adopting ASU 2016-13

The Company measures expected credit losses on held-to-maturity debt securities, which are comprised of corporate bonds. Accrued interest receivable on held-to-maturity debt securities totaled $33,542 at December 31, 2023 and is included within accrued interest receivable on the Consolidated Balance Sheet. This amount is excluded from the estimate of expected credit losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Securities (Continued)

Allowance for Credit Losses – Available for Sale Securities – After Adopting ASU 2016-13

For available-for-sale debt securities in an unrealized loss position, the Company evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit-related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses ("ACL") on the Statement of Condition, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available-for-sale debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount must be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in this situation.

Changes in the allowance for credit losses are recorded as provision (credit) for credit loss expense. Losses are charged against the ACL when management believes the uncollectability of an available-for-sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Credit Losses on Investment Securities – Prior to Adopting ASU 2016-13

The Company adopted ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments effective January 1, 2023. Financial statement amounts related to Investment Securities recorded as of December 31, 2022 and for the period ending December 31, 2022 are presented in accordance with the accounting policies described in the following section. The following section was carried forward from the Annual Report for the year ended December 31, 2022.

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.

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 $499,907 and $278,822 at December 31, 2023 and 2022, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled $1.6 million at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized to the related loan's yield over its contractual life.

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. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. 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 Credit Losses - Loans– After Adopting ASU 2016-13

The Company adopted ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments effective January 1, 2023. The ACL is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the portfolio segments as commercial loans, commercial real estate loans, residential loans, consumer loans, and home equity lines of credit. The ACL is measure for each segment using a weighted average maturity method and historical losses. These segments are detailed below:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

Allowance for Credit Losses - Loans– After Adopting ASU 2016-13 (Continued)

Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.

Commercial loans secured by commercial real estate also carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.

Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy. Consumer loans are further segmented into automobile and recreational vehicle loans and other consumer loans.

Residential loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. In instances where construction is in process, these loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.

Home equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.

Historical credit loss experience is the basis for the estimation of expected credit losses. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on National economic forecasts and management judgement. For periods beyond our reasonable and supportable forecast, we revert to historical loss rates.

The qualitative adjustments for current conditions are based upon (1) changes in lending policies and procedures, (2) changes in international, national, regional, and local conditions, (3) changes in the nature and volume of the portfolio, (4) changes in the experience, depth, and ability of lending management, (5) changes in the volume and severity of past due loans and other similar conditions, (6) changes in the quality of the Company's loan review system, (7) changes in the value of underlying collateral for collateral dependent loans, (8) the existence of and changes in concentrations of credit and (9) the effect of other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan over the life of each loan to calculate a required reserve.

The Company has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income. Accrued interest receivable on loans totaled $1,612,514 at December 31, 2023 and is included within accrued interest receivable on the consolidated balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

Allowance for Credit Losses - Loans– After Adopting ASU 2016-13 (Continued)

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. Factors considered by management in determining when individual analysis is required 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 evaluated individually. 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. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Allowance for Credit Losses - Loans– Prior to Adopting ASU 2016-13

Prior to the adoption of ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326):* Measurement of Credit Losses on Financial Instruments, the Company calculated our allowance for loan loss using an incurred loan loss methodology. The following policy related to the allowance for loan loss in prior periods.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that are inherent in the loan portfolio. The allowance is established by provisions charged to operating expense and reduced when loans are charged-off. Subsequent recoveries, if any, are credited to the allowance. Management's evaluation of the adequacy of the allowance for loan losses is based upon quarterly assessments of the loan portfolio. This assessment is inherently subjective and requires significant estimates that are subject to revisions as more information becomes available.

All classes of loans are considered impaired when, based on current information and events, it is probable that the company will be unable to collect the scheduled payments when due according to the contractual terms of the loan agreement. 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 larger, nonhomogeneous loans including commercial, commercial real estate, and commercial construction loans. These loans are classified as substandard or doubtful within our internal loan grading system. Large groups of smaller balance homogeneous loans (residential real estate, home equity lines of credit, and consumer loans) are collectively evaluated for impairment. Accordingly, the bank does not separately identify individual residential and consumer loans for impairment disclosures, unless a commercial borrower, who has been identified for impairment, also has a residential or consumer loan. In this case, the borrower's total relationship with the bank is reviewed and evaluated for impairment. Impaired loans are generally maintained on a nonaccrual status. However, loans may be returned to accrual status when the obligation is brought current, has performed in accordance with the terms of the note for a reasonable period of time (usually six months), and collection of interest is no longer in doubt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

Allowance for Credit Losses - Loans– Prior to Adopting ASU 2016-13 (Continued)

The allowance for loan losses estimate consists of three components. The first component relates to the specific analysis of impaired loans described above. These loans are each individually evaluated for impairment and an allowance is established when the loan's discounted cash flows, collateral value less cost to sell, or observable market price is less than its carrying value. The second component consists of all loans not specifically analyzed in the first component. For these loans, a general allowance is established by grouping the loans into pools having similar risk characteristics and collectively applying three-year historical loss factors, adjusted for current conditions, to each pool. This general allowance is based on general economic conditions and other qualitative risk factors both internal and external to the company. These factors include: (1) changes in lending policies and procedures, (2) changes in international, national, regional, and local conditions, (3) changes in the nature and volume of the portfolio, (4) changes in the experience, depth, and ability of lending management, (5) changes in the volume and severity of past due loans and other similar conditions, (6) changes in the quality of the Company's loan review system, (7) changes in the value of underlying collateral for collateral dependent loans, (8) the existence of and changes in concentrations of credit and (9) the effect of other external factors. The third component consists of an unallocated reserve that is added to the allowance in cases where management believes an additional reserve is warranted. This component helps ensure the adequacy of the allowance when management believes there are uncertainties that may not be fully accounted for in the previous two components. By its nature, the estimate of the allowance for loan losses is highly subjective. This component enables management to use professional judgment to refine imprecision that is inherent in this estimate.

During the quarterly evaluation of the allowance for loan losses, particular characteristics associated with a segment of the loan portfolio are also considered. These loan segments are the same under ASC 326 that are detailed above.

All classes of loans are charged off against the allowance when the loan or portion of the loan is deemed uncollectible. A loan or portion of a loan may be deemed uncollectible when, for example, pending legal action such as foreclosure is expected to result in a collateral shortfall. Any loan or portion of a loan with an internally assigned grade of "loss" is charged off in the month such grade was assigned.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 credit 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, 2023 and 2022, the Company recorded $26,387 and $13,193 in compensation expenses on the Company's Consolidated Statement of Income. There was $39,580 and $65,967 of unrecognized compensation cost related to unvested share-based compensation awards granted as of December 31, 2023 and 2022, respectively. The remaining cost is expected to be recognized over the next two 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 $4,568 and $4,446 of excess tax benefits included as a financing cash inflow for the years ended December 31, 2023 and 2022, 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 514,483 and 512,816 for December 31, 2023 and 2022, respectively. Diluted weighted-average common shares outstanding totaled 516,030 and 514,369 for December 31, 2023 and 2022, 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 2023 and 2022 were $5,774,045 and $1,705,412, respectively. Income tax payments totaled $670,000 in 2023 and $750,000 in 2022. The Company did not transfer any loans from the portfolio to other real estate owned in 2023 and 2022. Fair value adjustments for securities available for sale in 2023 and 2022 were $1,545,731 and ($13,852,258), 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, 2023 the Company adopted Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This standard, along with several other subsequent codification updates, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses that are expected to occur over the remaining life of a financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for credit losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures.

The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities and unfunded commitments. On January 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of $16,537, net of tax, for $111,045 related to unfunded commitments, and a $35,030 decrease related to held-to-maturity debt securities.

The Company adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023 using the prospective transition approach, though no such charges had been recorded on the securities held by the Bank as of the date of adoption.

The Company expanded the pooling utilized under the legacy incurred loss method to include additional segmentation based on risk. The impact of the change from the incurred loss model to the current expected credit loss model is detailed below (in thousands).

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
ACL on debt securities held-to-maturity			
Corporate bonds	$ -	$ 35,030	$ 35,030
ACL on loans			
Commercial loans	513,122	(129,654)	383,468
Commercial real estate loans	1,200,309	(57,533)	1,142,776
Consumer loans	44,099	12,115	56,214
Residential loans	1,094,554	86,899	1,181,453
Home equity lines of credit	198,909	(31,101)	167,808
Unallocated	10,264	(10,264)	-
Liabilities			
ACL for unfunded commitments	-	111,045	111,045
	$ 3,061,257	$ 16,537	$ 3,077,794

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards (Continued)

During the year ended December 31, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were evaluated and included in the CECL loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the ACL was measured using the collateral dependent or discounted cash flow method.

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, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available-for-sale:					
U.S. treasury and federal agency	$ 24,929,930	$ -	$ (1,369,891)	$ -	$ 23,560,039
U.S. government sponsored entities and agencies	22,006,645	-	(2,075,125)	-	19,931,520
Obligations of states and political subdivisions	30,875,138	30,704	(3,719,547)	-	27,186,295
Corporate bonds	500,000	-	(20,000)	-	480,000
Mortgage-backed securities: residential	26,044,974	5,881	(3,301,916)	-	22,748,939
Mortgage-backed securities: commercial	2,240,457	1,018	(136,284)	-	2,105,191
Colateralized mortgage obligations	9,484,532	8,738	(1,677,159)	-	7,816,111
Total available-for-sale	$ 116,081,676	$ 46,341	$ (12,299,922)	$ -	$ 103,828,095

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Held-to-maturity:					
Certificates of deposit	$ 590,000	$ -	$ (32,161)	$ 557,839	$ -
Corporate bonds	3,100,000	-	(515,296)	2,584,704	43,090
Total held-to-maturity	$ 3,690,000	$ -	$ (547,457)	$ 3,142,543	$ 43,090

	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

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	$ 10,964,800	$ 10,767,628
Due after one year through five years	32,942,771	30,802,412
Due after five years through ten years	18,413,966	16,523,394
Due after ten years	15,990,177	13,064,421
Mortgage-backed securities: residential	26,044,973	22,748,938
Mortgage-backed securities: commercial	2,240,457	2,105,191
Collateralized mortgage oblgiations	9,484,532	7,816,111
Total available-for-sale	$ 116,081,676	$ 103,828,095
Held-to-maturity		
Due within one year	$ 245,000	$ 237,398
Due after one year through five years	345,000	320,441
Due after five years through ten years	3,100,000	2,584,704
Total held-to-maturity	$ 3,690,000	$ 3,142,543

Securities pledged at December 31, 2023 and 2022, respectively, had a carrying amount of $24,282,908 and $46,301,510 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.

During the years ended December 31, 2023 and 2022, there were no securities sold by the Company.

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:

	2023					
	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	$ 487,578	$ (635)	$ 23,072,461	$ (1,369,256)	$ 23,560,039	$ (1,369,891)
U.S. government sponsored entities and agencies	497,412	(1,889)	19,434,108	(2,073,236)	19,931,520	(2,075,125)
Obligations of states and political subdivisions	3,614,926	(35,057)	20,168,912	(3,684,490)	23,783,838	(3,719,547)
Corporate bonds	-	-	480,000	(20,000)	480,000	(20,000)
Mortgage-backed securities: residential	186,083	(550)	22,105,336	(3,301,366)	22,291,419	(3,301,916)
Mortgage-backed securities: commercial	-	-	1,622,330	(136,284)	1,622,330	(136,284)
Colateralized mortgage obligations	-	-	7,334,735	(1,677,159)	7,334,735	(1,677,159)
Total available-for-sale	$ 4,785,999	$ (38,131)	$ 94,217,882	$ (12,261,791)	$ 99,003,881	$ (12,299,922)

2. DEBT SECURITIES (Continued)

	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
Held-to-maturity:						
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)

The Company reviews its position quarterly and has asserted that at December 31, 2023, 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 248 positions that were temporarily impaired at December 31, 2023. 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.

There was no allowance for credit losses on securities available-for-sale at December 31, 2023 and 2022.

The following table presents the activity in the allowance for credit losses for debt securities held to maturity by major security type for the year ended December 31, 2023:

	Beginning Balance	Impact of adopting ASC326	Charge-offs	Recoveries	Provisions (Reductions)	Ending Balance
Allowance for credit losses:						
Certificates of deposit	$ -	$ -	$ -	$ -	$ -	$ -
Corporate bonds	-	35,030	-	-	8,060	43,090
	$ -	$ 35,030	$ -	$ -	$ 8,060	$ 43,090

As of December 31, 2023, no ACL was required for mortgage-backed securities. The Company does not have the intent to sell and does not believe it will be more likely than not to be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

2. DEBT SECURITIES (Continued)

Credit Quality Indicators

The Company monitors the credit quality of debt securities held-to-maturity primarily through utilizing credit rating. The Company monitors the credit rating on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicator:

	Certficates of Deposit	Corporate Bonds
Held to Maturity		
Credit Rating		
AAA/AA/A	$ 590,000	$ 3,100,000
BBB/BB/B	-	-
Lower than B	-	-
	$ 590,000	$ 3,100,000

3. LOANS

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

	2023	2022
Commercial loans	$ 46,793,680	$ 33,439,686
Commercial real estate loans	146,975,563	139,823,997
Consumer loans	7,314,287	6,340,713
Residential loans	130,107,446	115,594,452
Home equity lines of credit	29,455,869	28,130,006
	360,646,845	323,328,854
Net deferred loan fees	(368,744)	(288,196)
Less allowance for credit losses	(3,187,417)	(3,061,257)
Net loans	$ 357,090,684	$ 319,979,401

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, 2023 and 2022, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

Related Party Loans

The amount of loans to principal officers, directors, and their affiliates at December 31, 2023 and 2022 totaled approximately $820,973 and $854,230, respectively.

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The following tables presents, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans as of December 31:

2023	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 513,122	$ 1,200,309	$ 44,099	$ 1,094,554	$ 198,909	$ 10,264	$ 3,061,257
Impact of adopting ASC326	(129,654)	(57,532)	12,115	86,899	(31,101)	(10,264)	(129,537)
Charge-offs	-	-	(361)	-	-	-	(361)
Recoveries	16,000	-	4,832	3,964	-	-	24,796
Provision	86,268	69,456	(4,232)	84,845	(5,075)	-	231,262
Ending Balance	$ 485,736	$ 1,212,233	$ 56,453	$ 1,270,262	$ 162,733	$ -	$ 3,187,417

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

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

Loans are generally considered nonaccrual upon reaching 90 days' delinquency, although the Bank may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following table presents the nonperforming loans as of December 31:

	2023				
	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
Commercial Real Estate	$ 1,274,957	$ -	$ 1,274,957	$ -	$ 1,274,957
Consumer	17,891	-	17,891	-	17,891
Residential	158,808	-	158,808	81,146	239,954
Home Equity Lines of Credit	113,651	-	113,651	-	113,651
	$ 1,565,307	$ -	$ 1,565,307	$ 81,146	$ 1,646,453

The following table presents the nonaccrual loans as of December 31:

	2022
Commercial real estate loans	$ 1,957,971
Consumer loans	26,680
Residential loans	412,949
Home equity lines of credit	176,834
Total	$ 2,574,434

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2023 and 2022, 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.

4. ALLOWANCE FOR CREDIT LOSSES (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:

2023	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 7,296,396	$ 129,867,492	$ 29,342,218	$ 166,506,106
Nonperforming	17,891	239,954	113,651	371,496
Total	$ 7,314,287	$ 130,107,446	$ 29,455,869	$ 166,877,602

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

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:

2023	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Total Loans
Commercial loans	$ 173,282	$ -	$ -	$ 173,282	$ 45,345,441	$ 46,793,680
Commercial real estate loans	-	-	-	-	146,975,563	146,975,563
Consumer loans	17,024	-	-	17,024	7,279,427	7,314,287
Residential loans	-	-	81,146	81,146	129,867,492	130,107,446
Home equity lines of credit	77,589	42,381	-	119,970	29,222,248	29,455,869
Total	$ 267,895	$ 42,381	$ 81,146	$ 391,422	$ 358,690,171	$ 360,646,845

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

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

Collateral-Dependent Loans

The following table present the collateral-dependent loans by portfolio segment and collateral type at December 31:

	2023		
	Real Estate	Business Assets	Total Other
Commercial Real Estate	$ 1,274,957	$ -	$ 1,274,957
Consumer	32,266	-	32,266
	$ 1,307,223	$ -	$ 1,307,223

Risk Categories of Loans

Based on the most recent analysis performed, the risk category of loans at December 31, 2023 is as follows:

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	
December 31, 2023	2023	2022	2021	2020	2019	Prior		Total
Commercial loans:								
Risk rating								
Pass	$ 18,879,716	$ 13,159,152	$ 4,557,595	$ 1,390,213	$ 2,042,406	$ 1,096,029	$ 3,852,041	$ 44,977,152
Special mention	-	-	-	-	-	595,000	-	595,000
Substandard	343,112	-	79,396	-	6,848	-	792,172	1,221,528
Doubtful	-	-	-	-	-	-	-	-
Total	$ 19,222,828	$ 13,159,152	$ 4,636,991	$ 1,390,213	$ 2,049,254	$ 1,691,029	$ 4,644,213	$ 46,793,680
Commercial loans:								
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans:								
Risk rating								
Pass	$ 18,440,386	$ 28,438,874	$ 23,302,222	$ 15,089,946	$ 12,129,235	$ 38,621,511	$ 5,060,604	$ 141,082,778
Special mention	-	-	-	-	-	457,429	-	457,429
Substandard	-	-	347,863	-	724,762	4,362,731	-	5,435,356
Doubtful	-	-	-	-	-	-	-	-
Total	$ 18,440,386	$ 28,438,874	$ 23,650,085	$ 15,089,946	$ 12,853,997	$ 43,441,671	$ 5,060,604	$ 146,975,563
Commercial real estate loans:								
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer loans:								
Risk rating								
Pass	$ 2,747,502	$ 1,791,026	$ 597,511	$ 293,693	$ 378,020	$ 1,477,570	$ -	$ 7,285,322
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	28,965	-	28,965
Doubtful	-	-	-	-	-	-	-	-
Total	$ 2,747,502	$ 1,791,026	$ 597,511	$ 293,693	$ 378,020	$ 1,506,535	$ -	$ 7,314,287
Consumer loans:								
Current period gross charge-offs	$ -	$ -	$ -	$ 361	$ -	$ -	$ -	$ 361

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

<u>Risk Categories of Loans</u> (Continued)

Residential loans:								
Risk rating								
Pass	$ 20,380,828	$ 30,092,215	$ 39,026,025	$ 10,018,324	$ 6,922,378	$ 23,427,722	$ -	$ 129,867,492
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	239,954	-	239,954
Doubtful	-	-	-	-	-	-	-	-
Total	$ 20,380,828	$ 30,092,215	$ 39,026,025	$ 10,018,324	$ 6,922,378	$ 23,667,676	$ -	$ 130,107,446
Residential loans:								
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Home equity lines of credit:								
Risk rating								
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ 29,342,218	$ 29,342,218
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	113,651	113,651
Doubtful	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ 29,455,869	$ 29,455,869
Home equity lines of credit:								
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total:								
Risk rating								
Pass	$ 60,448,432	$ 73,481,267	$ 67,483,353	$ 26,792,176	$ 21,472,039	$ 64,622,832	$ 38,254,863	$ 352,554,962
Special mention	-	-	-	-	-	1,052,429	-	1,052,429
Substandard	343,112	-	427,259	-	731,610	4,631,650	905,823	7,039,454
Doubtful	-	-	-	-	-	-	-	-
Total	$ 60,791,544	$ 73,481,267	$ 67,910,612	$ 26,792,176	$ 22,203,649	$ 70,306,911	$ 39,160,686	$ 360,646,845

	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

4. ALLOWANCE FOR CREDIT LOSSES (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:

	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

As of December 31, 2023, 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.

Modifications to Borrowers Experiencing Financial Difficulty

The Company may grant a modification to borrowers in financial distress by providing a temporary reduction in interest rate, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

There were no modification of loans to borrowers experiencing financial difficulty during the years ended December 31, 2023 and 2022.

There were no payment defaults for loan granted modifications due to a borrower experiencing financial difficulty within twelve months of the modification date, during the years ended December 31, 2023 and 2022.

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2023	2022
Land and land improvements	$ 2,026,056	$ 2,026,056
Building and leasehold improvements	6,755,361	6,753,791
Furniture, fixtures, and equipment	2,788,034	2,698,725
	11,569,451	11,478,572
Less accumulated depreciation	(4,382,979)	(4,098,959)
Total	$ 7,186,472	$ 7,379,613

Depreciation charged to operations was $299,602 in 2023 and $314,717 in 2022.

6. 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.

A right-of-use asset in the amount of $33,734 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, 2023, are as follows:

2024	$ 14,616
2025	14,916
2026	7,608
2027	-
2028	-
Thereafter	-
Total	$ 37,140
Less imputed interest	3,406
Net lease liabilities	$ 33,734

7. DEPOSITS

Time deposits at December 31, 2023, mature $123,797,177, $16,549,268, $2,169,158, $3,813,951, $902,157, and $121,083 during 2024, 2025, 2026, 2027, 2028 and thereafter respectively.

The aggregate amount of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000 totaled $18,783,936 and $8,373,756 at December 31, 2023 and 2022, respectively.

Included in certificates of deposit at December 31, 2023 and 2022, were $14,859,286 and $17,489,826, 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 $893,140 and $1,392,990 at December 31, 2023 and 2022, respectively.

8. FHLB ADVANCES

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

Description	Maturity range from	to	Weighted-average interest rate		At December 31, 2023		2022
Mortgage match - amortizing	03/01/24	02/01/30	1.91	% $	2,489,039	$	3,680,965
Mortgage match - non-amortizing	02/15/24	01/31/25	2.24		4,500,000		4,500,000
Cash mgmt. advance - non-amortizing	03/20/24	03/27/24	5.47		8,000,000		2,500,000
Total			3.91	% $	14,989,039	$	10,680,965

At December 31, 2023, 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 $8.0 million and $2.5 million outstanding from the line of credit outstanding as of December 31, 2023 and 2022, respectively. The Bank has a remaining borrowing capacity of $88.8 million at December 31, 2023.

8. 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 $1,020,600 and $982,400 at December 31, 2023 and 2022, 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
2024	$	11,442,401	4.76 %
2025		2,647,977	2.01
2026		437,939	2.02
2027		297,182	1.87
2028		91,919	1.80
Thereafter		71,621	1.76
Total	$	14,989,039	3.91 %

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, 2023 and 2022.

The Bank has a $5,000,000 unsecured federal funds line of credit with United Bankers Bank. There was federal funds purchased outstanding of $135,000 at December 31, 2023 and no federal funds purchased outstanding at December 31, 2022.

9. 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 Chicago Mercantile Exchange (CME) term Secure Overnight Financing Rate (SOFR) plus 2.85 percent, which was 8.52 percent at December 31, 2023. For the year ended December 31, 2022, the subordinated debentures had a variable rate of interest equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85 percent, which was 7.59 percent.

10. INCOME TAXES

The provision for federal income taxes consists of:

	2023	2022
Current payable	$ 772,367	$ 717,818
Deferred	(100,365)	(76,799)
Total provision	$ 670,002	$ 641,019

No valuation allowance was established at December 31, 2023 and 2022, 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:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 468,077	$ 437,666
Accrued expenses and employee benefits	878,946	836,881
Unrealized loss on available-for-sale securities	2,573,252	2,897,856
Deferred loan fees	77,435	60,521
Deferred tax assets	3,997,710	4,232,924
Deferred tax liabilities:		
Depreciation	97,130	102,077
Unrealized gain on available-for-sale securities	-	-
Federal Home Loan Bank stock dividends	10,829	28,119
Prepaid expenses	25,689	28,321
Security accretion	37,192	30,547
Stock-based compensation	3,799	9,615
Deferred tax liabilities	174,639	198,679
Net deferred tax assets	$ 3,823,071	$ 4,034,245

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

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 823,611	21.0 %	$ 809,050	21.0 %
Tax-exempt interest	(53,199)	(1.4)	(50,045)	(1.3)
Earnings on bank-owned life insurance	(100,642)	(2.6)	(112,208)	(2.9)
Other	232	-	(5,778)	(0.1)
Actual tax expense and effective rate	$ 670,002	17.0 %	$ 641,019	16.7 %

10. INCOME TAXES (Continued)

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.

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.

11. 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 $306,114 and $301,119 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, was $2,228,900 and $2,186,977, respectively. The expense related to the plan was $172920 and $172,212 for 2023 and 2022, respectively. There was $130,997 in distributions to participants in 2023 and 2002, respectively.

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, 2023 and 2022, was $1,956,558 and $1,798,172, respectively. The expense related to the plan was $348,061 and $343,176 for 2023 and 2022, 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.

11. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

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

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	2023	Weighted-Average Exercise Price	2022	Weighted-Average Exercise Price
Outstanding, January 1	3,680	$ 75.88	5,265	$ 75.68
Granted	-	-	-	-
Exercised	(1,295)	73.81	(1,485)	75.74
Forfeited	(300)	77.00	(100)	67.65
Outstanding, December 31	2,085	$ 77.00	3,680	$ 75.88
Exercisable at year-end	2,085	$ 77.00	3,680	$ 75.88

The following table summarizes the characteristics of stock options at December 31, 2023:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Remaining Average Life	Average Exercise Price	Shares	Average Exercise Price
2/19/2014	77.00	700	0.13	77.00	700	77.00
4/23/2014	77.00	1,385	0.30	77.00	1,385	77.00
		2,085		$ 75.88	2,085	$ 75.88

12. 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:

	2023		2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused business lines of credit	$ 1,386,411	$ 35,968,706	$ 1,924,760	$ 41,251,128
Unused construction lines of credit	244,538	4,637,883	1,661,471	4,145,349
Unused consumer lines of credit	39,556	41,920,270	39,744	40,406,701
Standby letters of credit	-	50,000	-	50,000
Total	$ 1,670,505	$ 82,576,859	$ 3,625,975	$ 85,853,178

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, 2023 and 2.50 percent to 18.00 percent at December 31, 2022.

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.

13. 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 2023 is $5,617,613 plus 2024 profits retained up to the date of the dividend declaration.

14. 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, 2023, 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 2023 and 2022, 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.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2023						
Total Capital (to risk-weighted assets):						
Consolidated	$ 54,434,303	15.02 %	$ 28,991,352	8.00 %	$ 36,239,190	10.00
Portage Community Bank	56,602,495	15.62	28,982,800	8.00	36,228,500	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 51,096,223	14.10 %	$ 21,743,514	6.00 %	$ 28,991,352	8.00
Portage Community Bank	53,264,415	14.70	21,737,100	6.00	28,982,800	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 51,096,223	14.10 %	$ 16,307,635	4.50 %	$ 23,555,473	6.50
Portage Community Bank	53,264,415	14.70	16,302,825	4.50	23,548,525	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 51,096,223	10.29 %	$ 19,861,010	4.00 %	$ 24,826,263	5.00
Portage Community Bank	53,264,415	10.50	20,298,440	4.00	25,373,050	5.00

14. 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

15. 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.

15. FAIR VALUE MEASUREMENTS (Continued)

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:

	2023			
	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	$ 23,560,039	$ -	$ 23,560,039	$ -
U.S. government sponsored entities and agencies	19,931,520	-	19,931,520	-
Obligations of states and political subdivisions	27,186,295	-	27,186,295	-
Corporate bonds	480,000	-	480,000	-
Mortgage-backed securities: residential	22,748,939	-	22,748,939	-
Mortgage-backed securities: commercial	2,105,191	-	2,105,191	-
Collateralized mortgage obligations	7,816,111	-	7,816,111	-
Total	$ 103,828,095	$ -	$ 103,828,095	$ -

	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	$ -

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.

15. 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:

2023	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually evaluated	$ 1,307,101	$ -	$ -	$ 1,307,101

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

Individually evaluated 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.

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:

2023	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Individually evaluated loans (collateral-dependent)	$ 1,307,101	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 20.0% (20.0%)

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%)

(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.

16. 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:

	2023			
	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	$ 8,305,674	$ 8,305,674	$ -	$ -
Debt securities available for sale	103,828,095	-	103,828,095	-
Debt securities held to maturity	3,646,910	-	3,142,543	-
Loans held for sale	499,907	499,907	-	-
Net loans	357,090,684	-	-	328,933,000
Bank-owned life insurance	12,326,206	12,326,206	-	-
Regulatory stock	1,384,250	1,384,250	-	-
Accrued interest receivable	2,062,237	2,062,237	-	-
Financial liabilities:				
Deposits	$ 434,679,202	$ 287,326,408	$ -	$ 145,765,000
Federal Home Loan Bank advances	14,989,039	-	-	14,814,000
Subordinated debentures	2,450,000	-	-	2,413,250
Accrued interest payable	793,945	793,945	-	-

	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	-	-

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.

17. 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	
	2023	2022
Accumulated other comprehensive income (loss), January 1	$ (10,901,458)	$ 41,826
Other comprehensive gain (loss) before reclassification, net of tax	1,221,128	(10,943,284)
Amount reclassified from accumulated other comprehensive income	-	-
Total other comprehensive income (loss)	1,221,128	(10,943,284)
Accumulated other comprehensive income (loss), December 31	$ (9,680,330)	$ (10,901,458)

There were no significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ended December 31, 2023 and 2022, respectively.

18. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2023, through April 2, 2024, 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 April 2, 2024.

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Thomas S. Siciliano, *Treasurer*
Timothy E. Crock, *Secretary*

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Timothy E. Crock, *Director*
James V. Damicone, *Director*
Paul Huchok, *Director*
Richard L. Leonard, *Director Emeritus*
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Kevin T. Lewis, *Director*
Dr. Aaron A. Moats, *Director*
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IT Manager & Information Security Officer

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Dennis P. Juvan
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