2010 Annual Report

PORTAGE BANCSHARES, INC.

Looking ahead • Focused on customer service • Fighting for a better tomorrow • Leading the way • Making an impact
Following through • Inspiring fresh thinking • Local and proud • Creating a new vision • Reinventing what's possible
Standing behind our clients • A step above • **Supporter of your dreams** • Pushing forward • Up to the task

"NEIGHBORS SERVING NEIGHBORS"

To Our Shareholders,

I am pleased on behalf of the Board of Directors and the Bank's Management Staff to share the financial results and successful performance of Portage Bancshares, Inc. for 2010. Although 2010 continued to be a challenging year in the banking industry, our continued emphasis on "Neighbors Serving Neighbors" along with local ownership, local management, and most of all local decisions has contributed to our best year ever for Portage Bancshares, Inc.

Our financial performance in 2010 was simply outstanding! Total Deposits as of December 31, 2010 amounted to $206.6 million as compared to $185.9 million in 2009, for an increase of $20.7 million or 11.14%. Total Assets again demonstrated solid growth of $18.0 million over the previous year which represented an increase of 7.89%. Our Net Loan growth was purposely slowed based on the economy and our commitment to approve only the very best credits presented to our Bank. This action resulted in Net Loan growth for 2010 to be flat.

The above growth resulted in record earnings for 2010 of $1.364 million. This was a $600,884 increase over 2009 Net Income. Earnings per share were $3.41 as compared to $2.01 in 2009, or an increase of 69.70%. We are extremely proud of these results during very challenging economic conditions which are influencing the banking industry.

In addition to these strong results we had many other accomplishments: We strengthened the Bank's Liquidity position, generated our first United States Department of Agriculture (U.S.D.A) Note Sale and received the prestigious Preferred Lender Program (PLP) status from the US Small Business Administration (SBA).

Lastly, we are excited about the growth our Kent Office has experienced since their doors opened for business in July, 2006. In 2010, Net Loans increased from $37.7 million to $45.4 million and Total Deposits increased from $29.5 million to $44.2 million. As of February 28, 2011, our Deposits are $44.9 million, which has far surpassed the 5 year goal of $35 million. This Deposit Growth milestone is an accomplishment we are extremely proud of.

I would like to extend a sincere thank you to our Board of Directors for their continued leadership and support. A special thank you goes out to our Employees whose dedication and compassion to build a solid foundation of customer service has been unprecedented since the day our doors opened.

Most of all, thank you to our customers and shareholders for having the confidence in us to make our "Company" successful.

Sincerely,

Richard J. Coe

Richard J. Coe
Chief Executive Officer

PORTAGE BANCSHARES, INC.
1311 E. Main St., Ravenna, OH 44266
330.296.8090

CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2010

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Portage Bancshares, Inc.

We have audited the accompanying consolidated balance sheet of Portage Bancshares, Inc. and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portage Bancshares, Inc. and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

S.R. Snodgrass, A.C.

Wexford, PA
March 29, 2011

Portage Bancshares, Inc.
Consolidated Balance Sheet

		December 31, 2010	December 31, 2009
Assets	Cash and due from banks	$ 9,577,582	$ 9,337,536
	Interest-bearing deposits in other finacial institutions	115,854	54,820
	Federal funds sold	48,000	84,000
	Cash and cash equivalents	**9,741,436**	**9,476,356**
	Investment securities available for sale	40,329,585	22,470,809
	Loans	184,845,500	185,092,055
	Less allowance for loan losses	2,586,857	2,777,907
	Net loans	**182,258,643**	**182,314,148**
	Regulatory stock	1,171,950	1,065,550
	Premises and equipment, net	4,139,151	4,259,188
	Bank-owned life insurance	4,240,954	4,065,193
	Accrued interest receivable	787,709	708,679
	Prepaid federal deposit insurance	1,166,163	1,633,408
	Other assets	2,219,358	2,091,596
	TOTAL ASSETS	**$ 246,054,949**	**$ 228,084,927**
Liabilities	Deposits:		
	Non-intrest-bearing	$ 21,455,459	$ 19,282,727
	Interest bearing demand	24,940,777	24,648,664
	Savings	75,151,719	52,297,366
	Time	85,083,013	89,677,420
	Total Deposits	**206,630,968**	**185,906,177**
	Federal Home Loan Bank advances	15,922,361	19,931,146
	Subordinated debentures	2,450,000	2,450,000
	Accrued interest and other liabilities	1,115,589	1,167,590
	TOTAL LIABILITIES	**226,118,918**	**209,454,913**
Stockholders' Equity	Common stock, no par value; 800,000 shares authorized,		
	418,497 and 407,128 shares issued; 401,372 and	13,948,963	13,497,576
	390,020 outstanding	6,950,216	5,829,353
	Retained earnings	40,989	303,272
	Accumulated other comprehensive income		
	Treasury stock, at cost (17,125 and 17,108 shares at cost)	(1,004,137)	(1,000,187)
	TOTAL STOCKHOLDERS' EQUITY	**19,936,031**	**18,630,014**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 246,054,949**	**$ 228,084,927**

**See accompanying notes to consolidated financial statements*

Portage Bancshares, Inc.
Consolidated Statement of Income

		Year Ended December 31, 2010	2009
Interest and Dividend Income	Interest and fees on loans	$ 10,514,011	$ 10,566,878
	Federal funds sold and other interest income	29,774	13,132
	Investment securities:		
	Taxable	696,201	697,520
	Exempt from federal income tax	96,775	71,575
	Other dividend income	52,767	52,193
	Total interest and dividend income	**11,389,528**	**11,401,298**
Interest Expense	Deposits	2,544,923	3,383,924
	Federal Home Loan Bank advances	690,598	758,379
	Subordinated debentures	82,887	100,407
	Total interest expense	**3,318,408**	**4,242,710**
Net Interest Income		8,071,120	7,158,588
	Provision for loan losses	**1,043,148**	**1,218,214**
Net Interest Income After Provision For Loan Losses		**7,027,972**	**5,940,374**
Noninterest Income	Service charges on deposit accounts	228,056	282,968
	Investment securities gains, net	-	10,578
	Gain on sale of loans	212,311	-
	Secondary market fees	451,087	376,905
	Earnings on bank-owned life insurance	175,761	174,899
	Other income	328,171	311,555
	Total noninterest income	**1,395,386**	**1,156,905**
Noninterest Expense	Salaries and employee benefits	3,033,550	2,997,121
	Net occupancy and equipment expenses	429,384	492,590
	Forms and supplies	142,456	113,320
	Data processing	303,770	290,737
	Professional fees	255,655	205,242
	Marketing and business development	217,301	196,433
	Franchise tax expense	215,000	195,050
	Federal deposit insurance	502,083	454,414
	Loss from other real estate owned	265,225	122,824
	Other expense	1,107,296	970,349
	Total noninterest expense	**6,471,720**	**6,038,080**
	Income before income taxes	1,951,638	1,059,199
	Income taxes	588,060	296,505
Net Income		**$ 1,363,578**	**$ 762,694**
Earnings Per Share	Basic	$ 3.41	$ 2.01
	Diluted	3.10	1.58

**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	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2008	**$ 12,855,819**	**$ 5,276,246**	**$ 185,793**	**$ (1,228,040)**	**$ 17,089,818**
Purchase of 8,532 shares of treasury stock				(497,449)	(497,449)
Sale of 11,440 shares of treasury stock	7,150			662,090	669,240
Retirement of 1,098 shares of treasury stock	(63,212)			63,212	-
Stock-based compensation expense	124,677				124,677
Exercise of 15,750 shares of stock options	393,750				393,750
Tax benefits from exercise of stock options	179,392				179,392
Cash dividends paid ($0.55 per share)		(209,587)			(209,587)
Net income		762,694			762,694
Other comprehensive income:					
Unrealized gain on available-for-sale securities, net of reclassification adjustment, net of taxes			117,479		117,479
Comprehensive income					880,173
Balance, December 31, 2009	**13,497,576**	**5,829,353**	**303,272**	**(1,000,187)**	**18,630,014**
Purchase of 3,648 shares of treasury stock				(223,090)	(223,090)
Retirement of 3,631 shares common stock	(219,140)			219,140	-
Stock-based compensation expense	124,677				124,677
Exercise of 15,000 shares of stock options	375,000				375,000
Tax benefits from exercise of stock options	170,850				170,850
Cash dividends paid ($0.60 per share)		(242,715)			(242,715)
Net income		1,363,578			1,363,578
Other comprehensive loss:					
Unrealized loss on available-for-sale securities, net of reclassification adjustment, net of taxes			(262,283)		(262,283)
Comprehensive income					1,101,295
Balance, December 31, 2010	**$ 13,948,963**	**$ 6,950,216**	**$ 40,989**	**$ (1,004,137)**	**$ 19,936,031**

**See accompanying notes to consolidated financial statements*

Portage Bancshares, Inc.
Consolidated Statement of Cash Flows

		Year Ended December 31, 2010	2009
Operating Activities	Net income	$ 1,363,578	$ 762,694
	Adjustments to reconcile net income to net cash provided by operating activities:		
	Provision for loan losses	1,043,148	1,218,214
	Depreciation	192,727	193,601
	Net amortization of securities	330,257	65,432
	Investment securities gains, net	–	(10,578)
	Gain on sale of loans	(212,311)	–
	Loss from other real estate owned	265,225	122,824
	Stock-based compensation expense	124,677	124,677
	Earnings on bank-owned life insurance	(175,761)	(174,899)
	Deferred income taxes	(37,623)	(293,656)
	Changes in net deferred loan fees	37,207	30,771
	(Increase) decrease in prepaid federal deposit insurance	467,245	(1,633,408)
	Other, net	(198,626)	(215,464)
	Net cash provided by operating activities	**3,199,743**	**190,208**
Investing Activities	Investment securities available for sale:		
	Proceeds from repayments and maturities	15,523,905	3,234,813
	Proceeds from sales	–	1,986,525
	Purchases	(34,110,067)	(14,014,112)
	Purchase of regulatory stock	(106,400)	(52,250)
	Proceeds from sale of loans	3,241,395	–
	Increase in loans, net	(4,704,529)	(5,093,013)
	Purchase of bank-owned life insurance	–	(500,000)
	Purchase of premises and equipment	(72,690)	(30,172)
	Proceeds from sale of other real estate owned	530,796	259,199
	Net cash used for investing activities	**(19,697,590)**	**(14,209,010)**
Financing Activities	Increase in deposits, net	20,724,791	17,307,552
	Proceeds from Federal Home Loan Bank advances	–	5,500,000
	Repayment of Federal Home Loan Bank advances	(4,008,785)	(3,061,169)
	Decrease in treasury, tax, and loan	(33,124)	(45,548)
	Purchase of treasury stock	(223,090)	(497,449)
	Proceeds from the sale of treasury stock	–	669,240
	Tax benefit from exercise of stock options	170,850	179,392
	Proceeds from stock option exercises	375,000	393,750
	Cash dividends paid	(242,715)	(209,587)
	Net cash provided by financing activities	**16,762,927**	**20,236,181**
	Increase in cash and cash equivalents	265,080	6,217,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**9,476,356**	**3,258,977**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**$ 9,741,436**	**$ 9,476,356**

**See accompanying notes to consolidated financial statements*

NOTE 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 County in Ohio and 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.

Investment Securities: Currently, the Company's investment securities portfolio is classified as available for sale. The portfolio serves principally as a source of liquidity and is carried at fair value with unrealized holding gains and losses for available-for-sale securities reported in other comprehensive income, net of tax, until realized. Debt securities acquired with the intent to hold to maturity would be classified as held to maturity and carried at cost adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Realized security gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

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

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

While the Federal Home Loan Banks have been negatively impacted by the current economic conditions, the Federal Home Loan Bank of Cincinnati has reported profits for 2010, remains in compliance with regulatory capital and liquidity requirements, continues to pay dividends on the stock and make redemptions at the par value. With consideration given to these factors, management concluded that the stock was not impaired at December 31, 2010 or 2009.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and whether or not the Company intends to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

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

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

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

Allowance for Loan Losses: The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses which is charged to operations. The provision is based on management's periodic evaluation of the adequacy of the allowance for loan losses which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term.

A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. Management has determined that first mortgage loans on one-to-four family properties and all consumer loans represent large groups of smaller-balance homogeneous loans that are to be collectively evaluated. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. A loan is not impaired during a period of delay in payment if the Company expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. All loans identified as impaired are evaluated independently by management. The Company estimates credit losses on impaired loans based on the present value of expected cash flows or the fair value of the underlying collateral if the loan repayment is expected to come from the sale or operation of such collateral.

Impaired loans, or portions thereof, are charged off when it is determined a realized loss has occurred. Until such time, an allowance for loan losses is maintained for estimated losses. Cash receipts on impaired loans are applied first to accrued interest receivable unless otherwise required by the loan terms, except when an impaired loan is also a nonaccrual loan. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectibility of such principal.

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

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

Other Real Estate Owned: Other real estate acquired through or in lieu of foreclosure is initially recorded at the lower of cost or fair value, less estimated costs to sell, and any loan balance in excess of fair value is charged to the allowance for loan losses. Subsequent valuations are periodically performed and 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.

Stock Options: During the years ended December 31, 2010 and 2009, the Company recorded $124,677 in compensation effects on the Company's Consolidated Statement of Income. As of December 31, 2010 and 2009, there was $231,122 and $355,799 of unrecognized compensation cost related to unvested share-based compensation awards granted. That 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 $170,850 and $179,392 of excess tax benefits included as a financing cash inflow for the years ended December 31, 2010 and 2009, in the Consolidated Statement of Cash Flows.

For purposes of computing pro forma results, the Company estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date.

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, warrants, and convertible securities are adjusted in the denominator.

Basic weighted-average common shares outstanding totaled 399,436 and 379,431 for December 31, 2010 and 2009, respectively. Diluted weighted-average common shares outstanding totaled 439,659 and 483,719 for December 31, 2010 and 2009, respectively.

Comprehensive Income: The Company is required to present comprehensive income and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income comprises unrealized holding gains (losses) on the available-for-sale securities portfolio. The Company has elected to report the effects of other comprehensive income as part of the Consolidated Statement of Changes in Stockholders' Equity.

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 2010 and 2009 were $3,438,367 and $4,340,124, respectively. Income tax payments totaled $665,000 in 2010 and $665,000 in 2009. The Company transferred $650,595 and $833,781 of loans from the portfolio to other real estate owned in 2010 and 2009, respectively. Fair value adjustments for securities available for sale in 2010 and 2009 were $(397,400) and $178,001, 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.

NOTE 2: Investment Securities Available For Sale

The amortized cost and fair values of securities available for sale are as follows:

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 15,386,069	$ 33,459	$ (198,596)	$ 15,220,932
Obligations of states and political subdivisions	5,576,480	35,052	(154,268)	5,457,264
Mortgage-backed securities in government-sponsored entities	19,304,933	400,676	(54,220)	19,651,389
TOTAL	**$ 40,267,482**	**$ 469,187**	**$ (407,084)**	**$ 40,329,585**

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 7,531,288	$ 6,260	$ (3,724)	$ 7,533,824
Obligations of states and political subdivisions	1,282,972	41,958	(1,125)	1,323,805
Mortgage-backed securities in government-sponsored entities	13,197,046	419,790	(3,656)	13,613,180
TOTAL	**$ 22,011,306**	**$ 468,008**	**$ (8,505)**	**$ 22,470,809**

The amortized cost and fair value of debt securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year	$ 500,630	$ 503,005
Due after one year through five years	8,527,266	8,471,182
Due after five years through ten years	6,361,710	6,261,311
Due after ten years	5,572,943	5,442,698
Mortgage-backed securities in government-sponsored entities	19,304,933	19,651,389
TOTAL	**$ 40,267,482**	**$ 40,329,585**

Investment securities with a carrying value of $17,072,578 and $17,280,835 at December 31, 2010 and 2009, respectively, were pledged to secure deposits and other purposes as required by law.

In 2009, the Company realized gross gains of $45,228 and gross losses of $34,650 as a result of sales of $1,986,525 in investment securities available for sale.

NOTE 2: Investment Securities Available For Sale (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, 2010 and 2009.

	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
2010						
U.S. government agency securities	$ 10,671,326	$ (198,596)	$ -	$ -	$ 10,671,326	$ (198,596)
Obligations of states and political subdivisions	3,992,583	(154,268)	-	-	3,992,583	(154,268)
Mortgage-backed securities in government-sponsored entities	8,008,530	(54,220)	-	-	8,008,530	(54,220)
TOTAL	**$22,672,439**	**$ (407,084)**	**$ -**	**$ -**	**$ 22,672,439**	**$ (407,084)**

	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
2009						
U.S. government agency securities	$ 2,007,086	$ (3,724)	$ -	$ -	$ 2,007,086	$ (3,724)
Obligations of states and political subdivisions	420,803	(1,125)	-	-	420,803	(1,125)
Mortgage-backed securities in government-sponsored entities	881,657	(3,656)	-	-	881,657	(3,656)
TOTAL	**$ 3,309,546**	**$ (8,505)**	**$ -**	**$ -**	**$ 3,309,546**	**$ (8,505)**

The Company reviews its position quarterly and has asserted that at December 31, 2010, 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 forty-three positions that were temporarily impaired at December 31, 2010. 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 noncollection of principal and interest during the period.

NOTE 3: Loans

Major classifications of loans are summarized as follows:

	2010	2009
Real estate loans	$ 41,603,174	$ 43,768,659
Home equity lines of credit	26,759,561	23,725,554
Personal loans	6,632,197	7,640,791
Credit lines and overdrafts	248,842	276,097
Business loans	109,086,097	109,177,988
Credit cards	738,763	725,785
	185,068,634	185,314,874
Net deferred loan fees	(222,134)	(222,819)
Less allowance for loan losses	(2,586,857)	(2,777,907)
NET LOANS	**$ 182,258,643**	**$ 182,314,148**

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	2010	2009
Balance, January 1	$ 2,777,907	$ 2,095,131
Add:		
Provisions charged to operations	1,043,148	1,218,214
Recoveries	75,158	978,691
Less loans charged off	(1,309,356)	(1,514,129)
Balance, December 31	**$ 2,586,857**	**$ 2,777,907**

The Company grants residential, commercial, and consumer loans to customers throughout its trade area which is concentrated in Portage County in Ohio. Although the Company has a diversified loan portfolio at December 31, 2010 and 2009, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

NOTE 3: Loans (Continued)

Certain directors and executive officers of the Company, members of their immediate families, and their related interest were indebted to the Company at December 31, 2010 and 2009. A summary of the activity on the related party loans to certain directors and executive officers and their related companies and immediate families consists of the following:

2009	Advances	Repayments	2010
$ 186,135	$ 42,691	$ (70,309)	$ 158,517

Impaired loans for December 31, 2010 and 2009, were as follows:

	2010	2009
Loans for which there is a related allowance for loan losses	$ 1,644,220	$ 2,621,282
Loans for which there is no related allowance for loan losses	1,053,193	1,097,630
Total	$ **2,697,413**	$ **3,718,912**
Related allowance for loan losses	$ 297,113	$ 905,550
Average recorded balance of impaired loans	3,311,861	2,301,986
Interest income recognized on impaired loans	46,890	29,356

Nonperforming loans were are follows:

	2010	2009
Loans past due over 90 days and still accruing	$ 448,136	$ 463,511
Nonaccrual loans	2,826,769	3,808,466

Interest income on loans would have increased by approximately $260,074 and $222,846 during 2010 and 2009, respectively, if these loans had performed in accordance with their original terms.

NOTE 4: Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

	2010	2009
Land and land improvements	$ 1,561,926	$ 1,561,926
Building and leasehold improvements	2,766,926	2,730,073
Furniture, fixtures, and equipment	1,553,834	1,517,997
	5,882,686	5,809,996
Less accumulated depreciation	(1,743,535)	(1,550,808)
TOTAL	**$ 4,139,151**	**$ 4,259,188**

Depreciation charged to operations was $192,727 in 2010 and $193,601 in 2009.

NOTE 5: Deposits

Time deposits at December 31, 2010, mature $63,997,054, $11,140,475, $5,947,056, $1,069,919, and $2,928,509 during 2011, 2012, 2013, 2014, and 2015, respectively.

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $3,784,274 and $2,061,186 at December 31, 2010 and 2009, respectively.

Included in certificates of deposit at December 31, 2010 and 2009, were $24,510,808 and $26,528,685, 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 approximately $989,633 and $1,119,205 at December 31, 2010 and 2009, respectively.

NOTE 6: FHLB Advances

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

Description	Maturity range from	Maturity range to	Weighted-average interest rate	At December 31, 2010	At December 31, 2009
Mortgage match	01/01/12	03/01/22	3.89%	**15,922,361**	**19,931,146**

At December 31, 2010, 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 were no borrowings from the line of credit outstanding as of December 31, 2010 and December 31, 2009. The Bank has a remaining borrowing capacity of $39.1 million at December 31, 2010.

The advances were collateralized by $23,724,318 and $29,896,719 of first mortgage loans under a blanket lien arrangement at December 31, 2010 and 2009, respectively.

Maturities over the next five years and thereafter were as follows:

Year Ending December 31,	Amount	Weighted Average Rate
2011	$ 3,513,158	3.87 %
2012	2,928,002	3.85
2013	2,462,262	3.82
2014	2,087,344	3.75
2015	1,719,086	3.63
Thereafter	3,212,509	3.95
	$ 15,922,361	**3.89 %**

NOTE 6: FHLB Advances (Cont.)

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.

The Company maintains a $1,000,000 unsecured line of credit and the Bank a $1,000,000 unsecured line of credit with another financial institution. No amounts were outstanding under these lines of credit at December 31, 2010 and 2009.

NOTE 7: 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 has the option to call the trust preferred securities. 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 interest rate on the trust preferred securities and the subordinated debentures is computed as the three-month London Interbank Offering Rate (LIBOR) plus 285 points. At December 31, 2010 and 2009, this equated to 3.15 percent and 3.10 percent, respectively.

NOTE 8: Income Tax

The provision for federal income taxes consists of:

	2010	2009
Current payable	$ 625,683	$ 590,161
Deferred	(37,623)	(293,656)
TOTAL PROVISION	**$ 588,060**	**$ 296,505**

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:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 679,967	$ 804,094
Accrued expenses and employee benefits	187,862	169,044
Deferred loan fees	58,558	58,568
Stock-based compensation	57,097	38,581
Other	150,715	39,934
Deferred tax assets	1,134,199	1,110,221
Deferred tax liabilities:		
Depreciation	66,544	84,113
Unrealized gain on available-for-sale securities	21,115	156,231
Federal Home Loan Bank stock dividends	45,526	45,526
Prepaid expenses	4,562	1,304
Security accretion	666	-
Deferred tax liabilities	138,413	287,174
NET DEFERRED TAX ASSETS	**$ 995,786**	**$ 823,047**

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

	2010		2009	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 663,557	34.0 %	$ 360,128	34.0 %
Tax-exempt interest	(28,308)	(1.5)	(59,466)	(5.6)
Earnings on bank-owned life insurance	(59,759)	(3.1)	(23,742)	(2.2)
Other	12,570	0.6	19,585	1.8
Actual tax expense and effective rate	**$ 588,060**	**30.1 %**	**$ 296,505**	**28.0 %**

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 2007.

NOTE 9: 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 are vested at all times. Employers' matching contributions vest 20 percent per year and are fully vested after five years. The expense related to the plan was $119,415 and $114,379 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, was $499,026 and $472,577, respectively. The expense related to the plan was $41,636 and $54,940 for 2010 and 2009, respectively. Distributions to participants were $17,024 and $4,165 in 2010 and 2009, respectively.

Stock Option Plan

The Company has a fixed director and employee stock-based compensation plan. Under the plan, the Company may grant options for up to 200,000 shares of common stock. 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.

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

	2010	Weighted-Average Exercise Price	2009	Weighted-Average Exercise Price
Outstanding, January 1	$ 164,559	40.48	$ 180,309	39.12
Granted	-	-	-	-
Exercised	(15,000)	25.00	(15,750)	25.00
Forfeited	-	-	-	-
Outstanding, December 31	**149,559**	42.03	**164,559**	40.48
Exercisable at year-end	**$ 124,239**	39.27	**$ 128,765**	36.38

NOTE 9: Employee Benefits (Cont.)

The following table summarizes the characteristics of stock options at December 31, 2010:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Remaining Average Life	Average Exercise Price	Shares	Average Exercise Price
7/16/2001	$ 30.00	17,867	0.50	$ 30.00	17,867	$ 30.00
5/15/2002	30.00	20,800	1.40	30.00	20,800	30.00
1/6/2004	30.00	20,150	3.00	30.00	20,150	30.00
6/15/2005	42.25	19,000	4.50	42.25	19,000	42.25
11/16/2005	45.00	20,500	4.90	45.00	20,500	45.00
1/24/2007	50.00	23,742	6.10	50.00	14,922	50.00
10/22/2008	58.50	27,500	7.80	58.50	11,000	58.50
		149,559		**$ 42.03**	**124,239**	**$ 39.27**

NOTE 10: 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:

	2010		2009	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused business lines of credit	$ 832,376	$ 10,834,265	$ 291,412	$ 9,195,635
Unused construction lines of credit	4,779	266,017	11,721	219,653
Unused consumer lines of credit	163,342	20,971,641	147,636	20,851,303
Standby letters of credit	-	40,000	-	1,568,000
TOTAL	**$ 1,000,497**	**$ 32,111,923**	**$ 450,769**	**$ 31,834,591**

NOTE 10: Loan Commitments (Cont.)

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 2.75 percent to 18.00 percent at December 31, 2010, and 3.25 percent to 18.00 percent at December 31, 2009.

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.

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.

NOTE 11: Regulatory Restrictions

Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve was $711,000 and $706,000 for the years ended December 31, 2010 and 2009, respectively.

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 2011 is $2,126,272 plus 2011 profits retained up to the date of the dividend declaration.

Federal regulations require the Company to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2010 and 2009, the FDIC categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier I risk-based, and Tier I Leverage capital ratios must be at least 10 percent, 6 percent, and 5 percent, respectively.

The Company's actual capital ratios are presented in the following table that shows the Company's met all regulatory capital requirements. The capital position of the Bank does not significantly differ from the Company's capital position.

	2010		2009	
Total Capital (to Risk-Weighted Assets)	**Amount**	**Ratio**	**Amount**	**Ratio**
Actual	$ 22,152	12.30 %	$ 23,034	12.79 %
For Capital Adequacy Purposes	14,411	8.00	14,404	8.00
To Be Well Capitalized	18,013	10.00	18,005	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 19,895	11.04 %	$ 18,327	10.18 %
For Capital Adequacy Purposes	7,205	4.00	7,202	4.00
To Be Well Capitalized	10,808	6.00	10,802	6.00
Tier I Capital (to Average Assets)				
Actual	$ 19,895	8.08 %	$ 18,327	8.11 %
For Capital Adequacy Purposes	9,851	4.00	9,038	4.00
To Be Well Capitalized	12,314	5.00	11,298	5.00

NOTE 13: Fair Value Measurements

NOTE 13: Fair Value Measurements

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

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

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

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

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

The following table presents the assets reported on the consolidated balance sheet at their fair value as of December 31, 2010 and 2009, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

December 31, 2010	Level I	Level II	Level III	Total
Fair value measurements on a recurring basis:				
Securities available for sale:				
U.S. government agency securities	$ -	$ 15,220,932	$ -	$ 15,220,932
Obligations of states and political subdivisions	-	5,457,264	-	5,457,264
Mortgage-backed securities in government-sponsored entities	-	19,651,389	-	19,651,389
TOTAL	**$ -**	**$ 40,329,585**	**$ -**	**$ 40,329,585**

December 31, 2009	Level I	Level II	Level III	Total
Fair value measurements on a recurring basis:				
Securities available for sale:				
U.S. government agency securities	$ -	$ 7,533,824	$ -	$ 7,533,824
Obligations of states and political subdivisions	-	1,323,805	-	1,323,805
Mortgage-backed securities in government-sponsored entities	-	13,613,180	-	13,613,180
TOTAL	**$ -**	**$ 22,470,809**	**$ -**	**$ 22,470,809**

The following table presents the assets measured on a nonrecurring basis on the consolidated balance sheet at their fair value as of December 31, 2010 and 2009, by level within the fair value hierarchy. Impaired loans that are collateral-dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secures the impaired loan include: quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input. Other real estate owned ("OREO") is measured at fair value, less cost to sell at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management. The assets are carried at fair value, less cost to sell. Income and expense from operations and changes in valuation allowance are included in the net expenses from OREO.

December 31, 2010	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 2,400,300	$ 2,400,300
Other real estate owned	-	586,286	-	586,286

December 31, 2009	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 2,813,362	$2,813,362
Other real estate owned	-	731,712	-	731,712

NOTE 14: Fair Value Disclosure of Financial Instruments

The estimated fair value of the Company's financial instruments at December 31 is as follows:

	2010		2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 9,741,436	$ 9,741,436	$ 9,476,356	$ 9,476,356
Investment securities available for sale	40,329,585	40,329,585	22,470,809	22,470,809
Net loans	182,258,643	186,117,000	182,314,148	189,554,692
Bank-owned life insurance	4,240,954	4,240,954	4,065,193	4,065,193
Regulatory stock	1,171,950	1,171,950	288,650	288,650
Accrued interest receivable	787,709	787,709	708,679	708,679
Financial liabilities:				
Deposits	$ 206,630,968	$ 207,294,955	$ 185,906,177	$ 189,938,222
Federal Home Loan Bank advances	15,922,361	17,021,072	19,931,146	21,158,074
Subordinated debentures	2,450,000	2,192,260	2,450,000	2,450,000
Treasury, tax, and loan	-	-	33,124	33,124
Accrued interest payable	215,419	215,419	335,378	335,378

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.

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

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

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

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

Cash and Cash Equivalents, Regulatory Stock, Accrued Interest Receivable, Accrued Interest Payable, and Treasury, Tax, and Loan

The fair value is equal to the current carrying value.

Investment Securities

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

Loans

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

Bank-Owned Life Insurance

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

Deposits, Federal Home Loan Bank Advances, and Subordinated Debentures

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

Commitments to Extend Credit

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

NOTE 15: Other Comprehensive Income

Other comprehensive income (loss) components and related taxes were as follows:

	December 31, 2010	December 31, 2009
Unrealized holding gains (losses) on available for sale securities	(397,399)	188,577
Reclassification adjustments for gains later recognized into net income	-	(10,578)
Net unrealized gains (losses)	(397,399)	177,999
Tax effect	135,116	(60,520)
Other comprehensive income (loss)	**(262,283)**	**117,479**

NOTE 16: Subscription and Share Purchase Agreement

The Company offered shares of no par commons stock for purchase through the terms of a Subscription and Share Purchase Agreement (the "Agreement") entered into on January 13, 2011 and ending on February 3, 2011. The Agreement allowed the Company to sell up to 10,000 shares of common stock at an offering price of $63.10 per share to a limited number of offerees. The minimum purchase by a subscriber was 500 shares. Through the Agreement, the Company sold 6,860 shares of its common stock and received proceeds of $432,866, net of offering expenses of $5,265.

NOTE 17: Subsequent Events

The Company assessed events occurring subsequent to December 31, 2010, through March 29, 2011, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require additional adjustments to or disclosure in the consolidated financial statements, which were issued on March 29, 2011.

PORTAGE BANCSHARES, INC.

Officers

Margaret F. Medzie
President

Thomas S. Siciliano
Treasurer

Timothy E. Crock
Secretary

PORTAGE COMMUNITY BANK

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Dr. Aaron A. Moats
Chairman of the Board

Margaret F. Medzie
Vice Chairwoman of the Board

Richard J. Coe
Director

Kevin T. Lewis
Director

Thomas S. Siciliano
Director

Dr. Emilio D. Ferrara
Director

James V. Damicone
Director

Richard L. Leonard
Director

Timothy E. Crock
Director

Divisional Responsibilities

Adam B. Rubin
Vice President, Real Estate Division

Dennis P. Juvan
Registered Representative
Portage Community Investment Services

PORTAGE COMMUNITY BANK

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Chief Executive Officer

Kevin T. Lewis
President & Chief Lending Officer

Donald D. Herman
Vice President & Chief Financial Officer

Constance M. Bennett
Vice President & Chief Operations Officer

Jill M. Conard
Vice President, Main Office Administration

D. Ty Barksdale
Vice President, Commercial Lending

Douglas L. Blay
Vice President, Commercial Lending

Dominic Bellino
Vice President, Loan Operations

Tracy L. Sites
Assistant Vice President, Consumer Lending

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Business Development Officer

Michelle A. Spellman
Operations Officer

Grace H. Beers
Operations Officer

Shelly K. Feciuch
Loan Operations Officer

Robert S. Standardi
Assistant Vice President, Controller

Portage Bancshares, Inc.