Neighbors Serving Neighbors

PORTAGE BANCSHARES, INC.™

2017 ANNUAL REPORT

PORTAGE BANCSHARES, INC.
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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PORTAGE BANCSHARES, INC.

To Our Fellow Shareholders,

On behalf of the Board of Directors and Management, I am pleased to share the financial results and successful performance of Portage Bancshares, Inc. (the "Company"), parent company of Portage Community Bank (the "Bank"), for the year ended December 31, 2017. Our continued emphasis on our vision of "Neighbors Serving Neighbors," along with local ownership, local management, and, most importantly, local decisions have contributed to the continued success of the Company in 2017.

Like most banks, the Company's fourth quarter and year-end 2017 results were impacted by a tax expense adjustment to the Company's net deferred tax assets as a result of the recently enacted Tax Cuts and Jobs Act. The one-time adjustment to the Company's net deferred tax assets was required based upon the lower rate at which they will be recovered in the future, thereby lowering their value. This noncash expense adjustment for the Company was approximately $502,182. The new federal tax bill reduces the Company's federal tax rate in future periods, beginning in 2018, to 21% from its current level of approximately 34%. This reduced rate will positively impact net income in future periods. As a result, net income was $2,214,133 for 2017 compared with $2,688,052 for 2016. Basic earnings per share came in at $4.47 for 2017 as compared to $5.62 for 2016. Without the tax expense adjustment, net income would have surpassed 2016 record earnings and come in at $2,716,315 for the year ended December 31, 2017, with $5.49 basic earnings per share.

Despite the deferred tax asset revaluation, we experienced simply outstanding growth in our deposits by achieving over $14 million in net growth for the third consecutive year. We continued to improve our core deposit composition and strengthened our relationships with our customers. The Company closed a record number of loans in 2017, which contributed to year-over-year growth in net loans. The number of residential loans closed generated record secondary market fee earnings of $906,738. The Portage Community Financial Services Division's assets under management increased to $85.3 million in 2017, up $15.0 million or 21.42% from 2016. For the 23rd consecutive quarter, Portage Community Bank received a Five-Star "Superior" rating from Bauer Financial, Inc., the nation's leading bank rating and research firm. The Five-Star "Superior" rating is the highest rating achievable and indicates the institution is one of the strongest banks in the nation. We are extremely proud of these outstanding results and because of our strong capital position, the Board of Directors increased the cash dividend to $1.00 per share in 2017 from $0.95 per share in 2016 – a 5.26% increase. This represents the tenth consecutive year that the Company has declared a dividend since introducing a formal dividend practice.

In 2017, we implemented a number of strategic initiatives designed to meet our goals for productivity, efficiency, and profitability across the organization. The Company completed the transition of stock transfer agent responsibilities from an in-house system to an outsourced full-service, tech-enabled professional services firm, American Stock Transfer & Trust Company. Operationally, we continue to enhance our internal systems and staffing needs to reinforce our goals for right-sizing Portage Community Bank's operating and cost structure, while continuing to focus on customer retention and earning new business.

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 into our twentieth year of existence in 2018, 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 continued support and having the confidence in us to continually make our Company successful.

Sincerely,

Richard J. Coe

Richard J. Coe
Chief Executive Officer

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ZENO, POCKL, LILLY AND COPELAND, A.C.
Certified Public Accountants & Advisors

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Portage Bancshares, Inc. and its subsidiary which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholder's equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its subsidiary as of December 31, 2017 and 2016, 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 of America.

Zeno, Pockl, Lilly and Copeland, A.C.

Wheeling, WV
March 30, 2018

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PORTAGE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 15,744,882	$ 13,086,132
Interest-bearing deposits in other financial institutions	1,488,027	1,891,787
Federal funds sold	309,000	-
Cash and cash equivalents	17,541,909	14,977,919
Investment securities available for sale	73,042,150	66,595,388
Loans held for sale	848,772	362,519
Loans	228,269,786	220,866,683
Less allowance for loan losses	2,775,274	2,815,706
Net loans	225,494,512	218,050,977
Regulatory stock	1,283,950	1,262,750
Premises and equipment, net	4,542,545	4,684,848
Bank-owned life insurance	8,015,095	7,820,807
Accrued interest receivable	942,146	847,963
Other assets	1,666,438	2,094,125
TOTAL ASSETS	$ 333,377,517	$ 316,697,296
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 55,456,353	$ 40,335,365
Interest-bearing demand	34,561,811	31,814,772
Savings	113,533,164	114,156,419
Time	73,274,918	75,715,386
Total deposits	276,826,246	262,021,942
Federal funds purchased	-	490,000
Federal Home Loan Bank advances	14,350,849	15,467,212
Subordinated debentures	2,450,000	2,450,000
Accrued interest payable and other liabilities	3,676,215	3,129,608
TOTAL LIABILITIES	297,303,310	283,558,762
STOCKHOLDERS' EQUITY		
Common stock, no par value; 800,000 shares authorized, (Issued 528,715 and Outstanding 495,658 as of 12/31/17) (Issued 505,205 and Outstanding 476,200 as of 12/31/16)	19,856,098	18,394,160
Retained earnings	19,092,739	17,346,632
Accumulated other comprehensive income	(132,428)	(334,966)
Treasury stock, at cost (33,057 shares as of 12/31/17 and 29,005 shares as of 12/31/16)	(2,742,202)	(2,267,292)
TOTAL STOCKHOLDERS' EQUITY	36,074,207	33,138,534
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 333,377,517	$ 316,697,296

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2017	2016
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 10,316,123	$ 10,002,358
Federal funds sold and other interest income	157,364	93,580
Investment securities:		
Taxable	742,229	564,312
Exempt from federal income tax	695,535	653,495
Other dividend income	67,305	57,342
Total interest and dividend income	11,978,556	11,371,087
INTEREST EXPENSE		
Deposits	1,363,292	1,285,886
Federal Home Loan Bank advances	242,429	273,531
Subordinated debentures	105,798	75,402
Total interest expense	1,711,519	1,634,819
NET INTEREST INCOME	10,267,037	9,736,268
Provision for loan losses	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,267,037	9,736,268
NONINTEREST INCOME		
Service charges on deposit accounts	144,675	138,855
Net gains on sales of investment securities	5,918	13,426
Net gains on sales of loans	36,321	-
Secondary market fees	906,738	820,233
Earnings on bank-owned life insurance	194,288	189,977
Investment banking fees and commissions	300,852	259,563
Net gains from other real estate owned	63,032	69,673
Other income	304,793	300,121
Total noninterest income	1,956,617	1,791,848
NONINTEREST EXPENSE		
Salaries and employee benefits	4,789,200	4,473,511
Net occupancy and equipment expenses	456,310	452,073
Data processing	447,251	399,471
Professional fees	207,936	250,291
Marketing and business development	281,203	315,766
Financial institutions tax	290,000	213,013
Federal deposit insurance	102,589	159,151
Other expense	1,920,220	1,608,763
Total noninterest expense	8,494,709	7,872,039
Income before income taxes	3,728,945	3,656,077
Income taxes	1,514,812	968,025
NET INCOME	$ 2,214,133	$ 2,688,052
EARNINGS PER SHARE		
Basic	$ 4.47	$ 5.62
Diluted	4.37	5.41

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net income	$ 2,214,133	$ 2,688,052
Other comprehensive income (loss):		
Unrealized holding loss arising during the period	262,295	(1,195,694)
Tax effect	(55,082)	406,536
Reclassification of investment securities gains recognized in net income	(5,918)	(13,426)
Tax effect	1,243	4,565
Total other comprehensive (loss) income	202,538	(798,019)
Comprehensive income	$ 2,416,671	$ 1,890,033

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, 2015	$ 18,182,189	$ 15,115,006	$ 463,053	$ (1,802,652)	$ 31,957,596
Purchase of 5,248 shares of treasury stock				(464,640)	(464,640)
Stock-based compensation expense	11,103				11,103
Exercise of 3,600 shares of stock options	180,000				180,000
Tax benefits from exercise of stock options	20,868				20,868
Cash dividends paid ($0.95 per share)		(456,426)			(456,426)
Net income		2,688,052			2,688,052
Other comprehensive income, net			(798,019)		(798,019)
Balance, December 31, 2016	18,394,160	17,346,632	(334,966)	(2,267,292)	33,138,534
Purchase of 9,132 shares of treasury stock				(843,972)	(843,972)
Issuance of 300 shares of common stock awards	28,020				28,020
Stock-based compensation expense	9,527				9,527
Exercise of 23,210 shares of stock options	1,191,525				1,191,525
Tax benefits from exercise of stock options	132,107				132,107
Reissuance of 5,080 shares of treasury stock for subscription and share purchase agreement	100,759			369,062	469,821
Cash dividends paid ($0.95 per share)		(468,026)			(468,026)
Net income		2,214,133			2,214,133
Other comprehensive loss			202,538		202,538
Balance, December 31, 2017	$ 19,856,098	$ 19,092,739	$ (132,428)	$ (2,742,202)	$ 36,074,207

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2017	2016
OPERATING ACTIVITIES		
Net income	$ 2,214,133	$ 2,688,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	-
Depreciation of premises and equipment	174,085	172,916
Net amortization of investment securities	678,917	496,334
Net realized gain on sales of investment securities	(5,918)	(13,426)
Net gain on sale of loans	(36,321)	-
Secondary market income	(906,738)	(820,233)
Originations of loans held for sale	(30,843,314)	(27,468,352)
Proceeds from sale of loans held for sale	30,357,061	27,861,100
Net realized gain on sales of other real estate owned	(63,032)	(69,673)
Stock-based compensation expense	9,527	11,103
Earnings on bank-owned life insurance	(194,288)	(189,977)
Deferred income taxes	412,864	(79,042)
Net amortization of deferred loan fees	29,494	52,241
Tax benefit from exercise of stock options	(132,107)	(20,868)
Other, net	375,600	526,631
Net cash provided by operating activities	2,069,963	3,146,806
INVESTING ACTIVITIES		
Available for sale Investment securities:		
Proceeds from sales	4,329,629	2,065,929
Proceeds from maturities, prepayments, and calls	8,103,946	10,877,772
Purchases	(19,213,441)	(28,536,368)
Purchase of Federal Home Loan Bank stock	(21,200)	(22,500)
Loan originations and payments, net	(6,704,420)	(3,030,231)
Additions to premises and equipment	(31,782)	(386,800)
Purchase of bank-owned life insurance	-	(1,000,000)
Proceeds from sale of other real estate owned	323,879	540,874
Net cash used for investing activities	(13,213,389)	(19,491,324)
FINANCING ACTIVITIES		
Net change in deposits	14,804,304	17,908,015
Proceeds from Federal Home Loan Bank advances	2,500,000	3,750,000
Repayment of Federal Home Loan Bank advances	(3,616,363)	(6,351,320)
Net change in federal funds purchased	(490,000)	490,000
Purchase of treasury stock	(843,972)	(464,640)
Proceeds from the sale of treasury stock	469,821	-
Tax benefit from exercise of stock options	132,107	20,868
Proceeds from exercise of stock options	1,191,525	180,000
Proceeds from common stock award	28,020	-
Cash dividends paid	(468,026)	(456,426)
Net cash provided by financing activities	13,707,416	15,076,497
Increase (decrease) in cash and cash equivalents	2,563,990	(1,268,021)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,977,919	16,245,940
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,541,909	$ 14,977,919

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 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

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

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

Loans Held for Sale

Loans held for sale are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Loans held for sale were $848,772 and $362,519 at December 31, 2017 and 2016, respectively.

Loans

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

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

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

Allowance for Loan Losses

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

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

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

Premises and Equipment

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

Bank-Owned Life Insurance (BOLI)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

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

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

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

Benefit Plans

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

Stock-Based Compensation

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 years ended December 31, 2017 and 2016, the Company recorded $28,155 and $11,103 in compensation expenses on the Company's Consolidated Statement of Income. As of December 31, 2017 and 2016, there was $18,378 and $18,513 of unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next five 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 $132,107 and $20,868 of excess tax benefits included as a financing cash inflow for the years ended December 31, 2017 and 2016, 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 495,196 and 478,148 for December 31, 2017 and 2016, respectively. Diluted weighted-average common shares outstanding totaled 506,112 and 496,583 for December 31, 2017 and 2016, respectively. The diluted weighted-average common shares outstanding are solely the result of stock options.

Comprehensive Income

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 2017 and 2016 were $1,693,077 and $1,634,819, respectively. Income tax payments totaled $1,150,000 in 2017 and $805,000 in 2016. The Company transferred $174,450 and $204,238 of loans from the portfolio to other real estate owned in 2017 and 2016, respectively. Fair value adjustments for securities available for sale in 2017 and 2016 were $339,895 and ($1,209,121), 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.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities available for sale are as follows:

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored entities and agencies	$ 12,756,839	$ -	$ (209,082)	$ 12,547,757
Obligations of states and political subdivisions	31,100,395	398,835	(172,416)	31,326,814
Mortage-backed securities: residential	22,237,520	81,889	(189,458)	22,129,951
Mortage-backed securities: commercial	7,115,025	16,174	(93,571)	7,037,628
Total	$ 73,209,779	$ 496,898	$ (664,527)	$ 73,042,150

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored entities and agencies	$ 12,251,498	$ 4,379	$ (203,893)	$ 12,051,984
Obligations of states and political subdivisions	31,357,806	253,563	(383,747)	31,227,622
Mortage-backed securities: residential	18,108,296	119,914	(195,096)	18,033,114
Mortage-backed securities: commercial	5,385,312	53	(102,697)	5,282,668
Total	$ 67,102,912	$ 377,909	$ (885,433)	$ 66,595,388

The amortized cost and fair value of investment securities at December 31, 2017, 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	$ 3,347,344	$ 3,343,846
Due after one year through five years	15,029,967	14,938,923
Due after five years through ten years	9,259,063	9,326,290
Due after ten years	16,220,860	16,265,512
Mortage-backed securities: residential	22,237,520	22,129,951
Mortage-backed securities: commercial	7,115,025	7,037,628
Total	$ 73,209,779	$ 73,042,150

Investment securities with a carrying value of $28,234,969 and $18,400,573 at December 31, 2017 and 2016, respectively, were pledged to secure deposits and other purposes as required by law.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

In 2017, the Company realized gross gains of $36,605 and gross losses of $30,687 as a result of proceeds of $4,329,629 in investment securities available for sale. In 2016, the Company realized gross gains of $34,407 and gross losses of $20,981 as a result of proceeds of $2,065,929 in investment securities available for sale.

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:

	2017					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government sponsored entities and agencies	$ 2,978,256	$ (25,514)	$ 9,569,498	$ (183,568)	$ 12,547,754	$ (209,082)
Obligations of states and political subdivisions	6,593,532	(61,427)	3,375,704	(110,989)	9,969,236	(172,416)
Mortage-backed securities: residential	14,509,613	(121,981)	3,787,869	(67,477)	18,297,482	(189,458)
Mortage-backed securities: commercial	828,984	(455)	2,790,669	(93,116)	3,619,653	(93,571)
Total	$ 24,910,385	$ (209,377)	$ 19,523,740	$ (455,150)	$ 44,434,125	$ (664,527)

	2016					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government sponsored entities and agencies	$ 10,542,871	$ (203,893)	$ -	$ -	$ 10,542,871	$ (203,893)
Obligations of states and political subdivisions	15,239,436	(373,394)	309,804	(10,353)	15,549,240	(383,747)
Mortage-backed securities: residential	8,890,445	(144,001)	2,464,419	(51,095)	11,354,864	(195,096)
Mortage-backed securities: commercial	4,719,920	(102,697)	-	-	4,719,920	(102,697)
Total	$ 39,392,672	$ (823,985)	$ 2,774,223	$ (61,448)	$ 42,166,895	$ (885,433)

The Company reviews its position quarterly and has asserted that at December 31, 2017, 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 101 positions that were temporarily impaired at December 31, 2017. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

3. LOANS

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

	2017	2016
Commercial loans	$ 25,170,663	$ 24,176,852
Commercial real estate loans	110,048,004	107,139,421
Consumer loans	3,939,165	5,458,236
Residential loans	63,005,830	57,047,575
Home equity lines of credit	26,275,419	27,215,356
	228,439,081	221,037,440
Net deferred loan fees	(169,295)	(170,757)
Less allowance for loan losses	(2,775,274)	(2,815,706)
Net loans	$ 225,494,512	$ 218,050,977

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, 2017 and 2016, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

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

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

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio. During 2017, the qualitative factor percentages for commercial loans, commercial real estate loans, consumer loans, residential loans, and home equity lines of credit slightly increased across the portfolios. The effect of economic trends, trends in volumes and terms, as well as the levels and trends in delinquencies primarily contributed to the fluctuation in qualitative factor percentages for commercial loans, commercial real estate loans, consumer loans, residential loans, and home equity lines of credit. Additionally, the Company's significant growth patterns experienced within the commercial, commercial real estate, and residential loan portfolios also contributed to increased qualitative adjustments in order to augment caution while the Company becomes more familiar with the new customer relationships acquired over the previous year. The ending reserve balances for commercial loans, consumer loans, residential loans, and home equity lines of credit increased across all portfolios as compared to the prior end of year reserve balances, while the ending reserve balance for commercial real estate loans decreased due to a significant recovery experienced in 2017 coupled with the rolling off of significant previous losses from the Company's 60-month historical loss history. In 2016 and 2017, the level of charge-offs activity experienced collectively was relatively marginal in nature with a number of lesser balance items driving activity.

3. LOANS (Continued)

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $2.8 million adequate to cover loan losses inherent in the loan portfolio, at December 31, 2017. The following tables presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of December 31:

2017	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 302,189	$ 1,525,203	$ 82,323	$ 425,234	$ 133,333	$ 347,424	$ 2,815,706
Charge-offs	(43,822)	(26,662)	(25,205)	(43,813)	(74,079)	-	(213,581)
Recoveries	3,679	162,359	922	1,372	4,817	-	173,149
Provision	164,637	(615,007)	24,389	138,956	176,298	110,727	-
Ending Balance	$ 426,683	$ 1,045,893	$ 82,429	$ 521,749	$ 240,369	$ 458,151	$ 2,775,274
Ending balance: individually evaluated for impairment	$ 26,747	$ 125,905	$ 38,359	$ 57,493	$ -	$ -	$ 248,504
Ending balance: collectively evaluated for impairment	$ 399,936	$ 919,988	$ 44,070	$ 464,256	$ 240,369	$ 458,151	$ 2,526,770
Loans Receivable:							
Ending Balance	$ 25,170,663	$ 110,048,004	$ 3,939,165	$ 63,005,830	$ 26,275,419	$ -	$ 228,439,081
Ending balance: individually evaluated for impairment	$ 122,597	$ 1,212,256	$ 63,419	$ 299,602	$ -	$ -	$ 1,697,874
Ending balance: collectively evaluated for impairment	$ 25,048,066	$ 108,835,748	$ 3,875,746	$ 62,706,228	$ 26,275,419	$ -	$ 226,741,207

2016	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 262,498	$ 1,641,298	$ 90,567	$ 502,305	$ 143,909	$ 215,840	$ 2,856,417
Charge-offs	(39,427)	-	(6,212)	(107,878)	(8,571)	-	(162,088)
Recoveries	15,441	97,265	8,171	500	-	-	121,377
Provision	63,677	(213,360)	(10,203)	30,307	(2,005)	131,584	-
Ending Balance	$ 302,189	$ 1,525,203	$ 82,323	$ 425,234	$ 133,333	$ 347,424	$ 2,815,706
Ending balance: individually evaluated for impairment	$ 15,963	$ 170,243	$ 44,197	$ 59,776	$ -	$ -	$ 290,179
Ending balance: collectively evaluated for impairment	$ 286,226	$ 1,354,960	$ 38,126	$ 365,458	$ 133,333	$ 347,424	$ 2,525,527
Loans Receivable:							
Ending Balance	$ 24,176,852	$ 107,139,421	$ 5,458,236	$ 57,047,575	$ 27,215,356	$ -	$ 221,037,440
Ending balance: individually evaluated for impairment	$ 626,415	$ 1,254,377	$ 78,792	$ 306,507	$ -	$ -	$ 2,266,091
Ending balance: collectively evaluated for impairment	$ 23,550,437	$ 105,885,044	$ 5,379,444	$ 56,741,068	$ 27,215,356	$ -	$ 218,771,349

3. LOANS (Continued)

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2017 and 2016, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

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

	As of December 31, 2017		
	Commercial	Commercial Real Estate	Total
Pass	$ 24,219,004	$ 103,412,028	$ 127,631,032
Special mention	199,126	1,515,075	1,714,201
Substandard	743,260	5,027,902	5,771,161
Doubtful	9,273	93,000	102,273
Loss	-	-	-
Total	$ 25,170,663	$ 110,048,004	$ 135,218,667

	As of December 31, 2016		
	Commercial	Commercial Real Estate	Total
Pass	$ 22,554,534	$ 99,453,009	$ 122,007,543
Special mention	247,550	3,243,830	3,491,380
Substandard	1,374,768	4,442,582	5,817,350
Doubtful	-	-	-
Loss	-	-	-
Total	$ 24,176,852	$ 107,139,421	$ 131,316,273

3. LOANS (Continued)

Credit Quality Information (Continued)

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

	2017			
	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 3,926,248	$ 62,667,953	$ 25,919,842	$ 92,514,043
Nonperforming	12,917	337,877	355,577	706,371
Total	$ 3,939,165	$ 63,005,830	$ 26,275,419	$ 93,220,414

	2016			
	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 5,427,829	$ 56,719,466	$ 27,133,382	$ 89,280,677
Nonperforming	30,407	328,109	81,974	440,490
Total	$ 5,458,236	$ 57,047,575	$ 27,215,356	$ 89,721,167

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:

	2017						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Nonaccrual	Total Loans
Commercial loans	$ 21,445	$ -	$ -	$ 21,445	$ 25,035,894	$ 113,324	$ 25,170,663
Commercial real estate loans	246,462	-	248,237	494,699	108,833,926	719,379	110,048,004
Consumer loans	3,562	32,561	-	36,123	3,890,125	12,917	3,939,165
Residential loans	354,898	-	-	354,898	62,313,055	337,877	63,005,830
Home equity lines of credit	128,776	-	-	128,776	25,791,066	355,577	26,275,419
Total	$ 755,143	$ 32,561	$ 248,237	$ 1,035,941	$ 225,864,066	$ 1,539,074	$ 228,439,081

	2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Nonaccrual	Total Loans
Commercial loans	$ 19,758	$ -	$ -	$ 19,758	$ 24,089,897	$ 67,197	$ 24,176,852
Commercial real estate loans	425,788	-	-	425,788	105,530,897	1,182,736	107,139,421
Consumer loans	62,166	7,587	20,620	90,373	5,358,076	9,787	5,458,236
Residential loans	202,769	-	-	202,769	56,516,697	328,109	57,047,575
Home equity lines of credit	-	-	-	-	27,133,382	81,974	27,215,356
Total	$ 710,481	$ 7,587	$ 20,620	$ 738,688	$ 218,628,949	$ 1,669,803	$ 221,037,440

3. LOANS (Continued)

Interest income that would have been recorded had nonaccrual loans not been placed on nonaccrual status was $54,240 and $81,404 in 2017 and 2016, respectively.

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:

	2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial loans	$ -	$ -	$ -	$ 242,526	$ 18,299
Commercial real estate loans	1,102,838	1,493,517	-	1,502,656	128,649
Consumer loans	25,060	76,400	-	29,445	3,814
Residential loans	91,676	91,676	-	92,901	3,602
Home equity lines of credit	-	-	-	-	-
	$ 1,219,574	$ 1,661,593	$ -	$ 1,867,528	$ 154,364
With an allowance recorded:					
Commercial loans	$ 122,597	$ 146,064	$ 26,747	$ 97,361	$ 11,953
Commercial real estate loans	109,417	109,417	125,905	113,345	2,491
Consumer loans	38,359	38,359	38,359	41,068	2,562
Residential loans	207,927	209,646	57,493	209,215	11,653
Home equity lines of credit	-	-	-	-	-
	$ 478,300	$ 503,486	$ 248,504	$ 460,989	$ 28,659
Total:					
Commercial loans	$ 122,597	$ 146,064	$ 26,747	$ 339,887	$ 30,252
Commercial real estate loans	1,212,255	1,602,934	125,905	1,616,001	131,140
Consumer loans	63,419	114,759	38,359	70,513	6,376
Residential loans	299,603	301,322	57,493	302,116	15,255
Home equity lines of credit	-	-	-	-	-
	$ 1,697,874	$ 2,165,079	$ 248,504	$ 2,328,517	$ 183,023

3. LOANS (Continued)

Impaired Loans (Continued)

	2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial loans	$ -	$ -	$ -	$ 3,401	$ 605
Commercial real estate loans	1,164,525	1,519,405	-	1,388,570	37,789
Consumer loans	34,595	83,544	-	38,931	3,471
Residential loans	93,215	93,215	-	93,714	3,834
Home equity lines of credit	-	-	-	-	-
	$ 1,292,335	$ 1,696,164	$ -	$ 1,524,616	$ 45,699
With an allowance recorded:					
Commercial loans	$ 67,197	$ 90,664	$ 15,963	$ 74,072	$ 12,474
Commercial real estate loans	649,070	800,250	170,243	602,903	7,654
Consumer loans	44,197	44,197	44,197	46,240	2,949
Residential loans	213,292	213,292	59,776	215,742	11,866
Home equity lines of credit	-	-	-	-	-
	$ 973,756	$ 1,148,403	$ 290,179	$ 938,957	$ 34,943
Total:					
Commercial loans	$ 67,197	$ 90,664	$ 15,963	$ 77,473	$ 13,079
Commercial real estate loans	1,813,595	2,319,655	170,243	1,991,473	45,443
Consumer loans	78,792	127,741	44,197	85,171	6,420
Residential loans	306,507	306,507	59,776	309,456	15,700
Home equity lines of credit	-	-	-	-	-
	$ 2,266,091	$ 2,844,567	$ 290,179	$ 2,463,573	$ 80,642

As of December 31, 2017, the Company had $181,812 of foreclosed real estate property obtained by physical possession and $533,360 of loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdiction.

Troubled Debt Restructurings

As of December 31, 2017 and 2016, the Company has a recorded investment in troubled debt restructurings of $1,007,024 and $1,491,502, respectively. The Company allocated $222,744 and $170,890 of specific allowance for those loans at December 31, 2017 and 2016, respectively.

The tables below summarize the Company's troubled debt restructurings before and after modifications for the years ended December 31:

	2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial loans	1	$ 61,127	$ 61,127

3. LOANS (Continued)

Troubled Debt Restructurings (Continued)

	2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial real estate loans	2	$ 105,923	$ 105,923

The commercial and commercial real estate were modified by lowering the stated interest rates and/or extending the terms of the original loans. No principal reductions were made. Additional interest income of $31,478 and $32,472 would have been recognized for the years ended December 31, 2017 and 2016, respectively, at the original interest rate as compared to the adjusted interest rate on the troubled debt restructurings.

The Company had a payment default on one troubled debt restructuring contract during 2017 comprised of a commercial loan in the amount of $23,968. The Company did not have any payment defaults on troubled debt restructuring contracts during 2016.

4. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2017	2016
Land and land improvements	$ 1,576,056	$ 1,576,056
Building and leasehold improvements	3,813,248	3,801,748
Furniture, fixtures, and equipment	2,012,628	1,992,346
	7,401,932	7,370,150
Less accumulated depreciation	(2,859,387)	(2,685,302)
Total	$ 4,542,545	$ 4,684,848

Depreciation charged to operations was $174,085 in 2017 and $172,916 in 2016.

5. DEPOSITS

Time deposits at December 31, 2017, mature $46,036,875, $11,763,290, $4,783,991, $5,815,285, $3,734,548, and $1,140,929 during 2018, 2019, 2020, 2021, 2022, and thereafter respectively.

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $4,922,893 and $3,641,771 at December 31, 2017 and 2016, respectively.

The aggregate amount of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000 totaled $1,075,942 and $1,496,469 at December 31, 2017 and 2016, respectively.

5. DEPOSITS (Continued)

Included in certificates of deposit at December 31, 2017 and 2016, were $15,116,667 and $18,739,913, respectively, obtained through the Certificate of Deposit Account Registry Services (CDARS). This service allows deposit customers to maintain fully insured balances in excess of the $250,000 FDIC insurance limit without the inconvenience of having multi-banking relationships. Under the reciprocal program, which the Company is currently participating in, customers agree to allow the Company to place their deposits with participating banks in the CDARS program, in insurable amounts under $250,000. In exchange, other banks in the program agree to place their deposits with Portage Community Bank, also in insurable amounts under $250,000.

Related-party deposits were $1,089,198 and $1,345,090 at December 31, 2017 and 2016, respectively.

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, 2017	At December 31, 2016
Mortgage match - amortizing	03/01/18	11/01/29	1.75 %	$ 12,350,849	$ 12,967,212
Mortgage match - non-amortizing	02/06/19	07/02/21	1.65	2,000,000	2,500,000
Total			1.74 %	$ 14,350,849	$ 15,467,212

At December 31, 2017, 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, 2017 and December 31, 2016. The Bank has a remaining borrowing capacity of $50.1 million at December 31, 2017.

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 $920,300 and $899,100 at December 31, 2017, and 2016, 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
2018	$ 2,866,203	1.71 %
2019	2,790,463	1.69
2020	1,788,311	1.69
2021	2,977,507	1.74
2022	1,209,575	1.77
Thereafter	2,718,790	1.17
Total	$ 14,350,849	1.74 %

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, 2017 and 2016.

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 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 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, 2017 and 2016, this equated to 4.46 percent and 3.83 percent, respectively.

8. INCOME TAXES

The provision for federal income taxes consists of:

	2017	2016
Current payable	$ 1,101,948	$ 1,047,067
Deferred	412,864	(79,042)
Total provision	$ 1,514,812	$ 968,025

No valuation allowance was established at December 31, 2017 and 2016, 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:

	2017	2016
Deferred tax assets		
Allowance for loan losses	$ 405,116	$ 655,901
Accrued expenses and employee benefits	483,280	645,663
Unrealized loss on available-for-sale securities	35,202	172,558
Deferred loan fees	35,552	46,980
Stock-based compensation	14,458	77,865
Other	-	7,682
Deferred tax assets	973,608	1,606,649
Deferred tax liabilities:		
Depreciation	70,640	134,249
Federal Home Loan Bank stock dividends	28,119	45,526
Prepaid expenses	13,198	14,295
Security accretion	774	1,482
Deferred tax liabilities	112,731	195,552
Net deferred tax assets	$ 860,877	$ 1,411,097

8. INCOME TAXES (Continued)

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

	2017		2016	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,267,841	34.0 %	$ 1,243,066	34.0 %
Tax-exempt interest	(257,011)	(6.9)	(220,733)	(6.0)
Earnings on bank-owned life insurance	(66,058)	(1.8)	(64,592)	(1.8)
Impact of enactment of federal tax reform	511,132	13.7	-	-
Other	58,908	1.6	10,284	0.3
Actual tax expense and effective rate	$ 1,514,812	40.6 %	$ 968,025	26.5 %

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 2014.

Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums. The Tax Cuts and Jobs Act also significantly changes U.S. tax law related to foreign operations, however, such changes do not currently impact us.

As stated above, as a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, we remeasured our deferred tax assets and liabilities based upon the newly enacted U.S. statutory federal income tax rate of 21%, which is the tax rate at which these assets and liabilities are expected to reverse in the future. Notwithstanding the foregoing, we are still analyzing certain aspects of the new law and refining our calculations, which could affect the measurement of these assets and liabilities or give rise to new deferred tax amounts. Nonetheless, we recognized a provisional net tax expense related to the remeasurement of our deferred tax assets and liabilities totaling $511,132.

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 and employers' matching contributions are vested immediately. The expense related to the plan was $199,063 and $198,151 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, was $1,705,730 and $1,494,084, respectively. The expense related to the plan was $233,690 and $261,361 for 2017 and 2016, respectively. Distributions to participants were $22,044 and $22,738 in 2017 and 2016, 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, 2017 and 2016, was $595,604 and $404,924, respectively. The expense related to the plan was $232,607 and $142,960 for 2017 and 2016, respectively.

Stock Option Plan

The Company has two share based compensation plans. The Company's 2004 and 2016 Stock Incentive Plans, which are shareholder approved, both permit the grant of share options 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.

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

`

	2017	Weighted-Average Exercise Price	2016	Weighted-Average Exercise Price
Outstanding, January 1	56,775	$ 58.39	60,375	$ 57.89
Granted	-	-	-	-
Exercised	(23,210)	51.34	(3,600)	50.00
Forfeited	-	-	-	-
Outstanding, December 31	33,565	$ 63.27	56,775	$ 58.39
Exercisable at year-end	30,739	$ 62.03	52,121	$ 56.82

9. EMPLOYEE BENEFITS (Continued)

The following table summarizes the characteristics of stock options at December 31, 2017:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Remaining Average Life	Average Exercise Price	Shares	Average Exercise Price
10/22/2008	58.50	22,025	0.80	58.50	22,025	58.50
1/24/2011	63.10	2,400	3.06	63.10	2,400	63.10
1/25/2012	67.65	1,700	4.06	67.65	1,700	67.65
1/31/2013	71.50	750	5.08	71.50	600	71.50
2/19/2014	77.00	1,950	6.13	77.00	1,170	77.00
4/23/2014	77.00	4,740	6.31	77.00	2,844	77.00
		33,565		$ 63.27	30,739	$ 62.03

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:

	2017		2016	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused business lines of credit	$ 2,442,006	$ 22,702,897	$ 2,185,655	$ 21,069,901
Unused construction lines of credit	762,208	1,121,695	916,536	761,312
Unused consumer lines of credit	90,073	20,144,093	94,885	22,023,123
Standby letters of credit	-	57,500	-	131,291
Total	$ 3,294,287	$ 44,026,185	$ 3,197,076	$ 43,985,627

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 3.50 percent to 18.00 percent at December 31, 2017 and December 31, 2016.

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.

11. 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.

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 $1,743,000 and $1,447,000 for the years ended December 31, 2017 and 2016, 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 2017 is $5,156,515 plus 2018 profits retained up to the date of the dividend declaration.

12. REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal and state 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 final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital rules. The capital conservation buffer is being phased in from 0.00% for 2015 to 2.50% by 2019. The capital conservation buffer was 1.25% during 2017 and 0.625% during 2016. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017, 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 is asset growth and expansion, and capital restoration plans are required. At year-end 2017 and 2016, the most recent regulatory notifications categorized the Bank 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.

12. REGULATORY CAPITAL MATTERS (Continued)

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
2017						
Total Capital (to risk-weighted assets):						
Consolidated	$ 38,911,909	17.07 %	$ 18,235,458	8.00 %	$ 22,794,323	10.00
Portage Community Bank	39,365,658	17.29	18,214,080	8.00	22,767,600	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 36,136,635	15.85 %	$ 13,676,594	6.00 %	$ 18,235,458	8.00
Portage Community Bank	36,590,384	16.07	13,660,560	8.00	18,214,080	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 36,136,635	15.85 %	$ 10,257,445	4.50 %	$ 14,816,310	6.50
Portage Community Bank	36,590,384	16.07	10,245,420	4.50	14,798,940	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 36,171,455	10.86 %	$ 13,309,390	4.00 %	$ 16,636,737	5.00
Portage Community Bank	37,002,518	10.97	13,344,880	4.00	16,681,100	5.00

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2016						
Total Capital (to risk-weighted assets):						
Consolidated	$ 36,171,455	16.34 %	$ 17,711,090	8.00 %	$ 22,138,862	10.00
Portage Community Bank	37,002,518	16.74	17,685,950	8.00	22,107,437	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 33,403,500	15.09 %	$ 13,283,317	6.00 %	$ 17,711,090	8.00
Portage Community Bank	34,238,443	15.49	13,264,462	8.00	17,685,950	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 33,403,500	15.09 %	$ 9,962,488	4.50 %	$ 14,390,261	6.50
Portage Community Bank	33,238,443	15.49	9,948,347	4.50	14,369,834	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 33,403,500	10.57 %	$ 12,646,536	4.00 %	$ 15,808,170	5.00
Portage Community Bank	34,238,443	10.85	12,626,526	4.00	15,783,158	5.00

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 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:

	2017			
	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	$ 12,547,757	$ -	$ 12,547,757	$ -
Obligations of states and political subdivisions	31,326,814	-	31,326,814	-
Mortage-backed securities: residential	22,129,951	-	22,129,951	-
Mortage-backed securities: commercial	7,037,628	-	7,037,628	-
Total	$ 73,042,150	$ -	$ 73,042,150	$ -

	2016			
	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	$ 12,051,984	$ -	$ 12,051,984	$ -
Obligations of states and political subdivisions	31,227,622	-	31,227,622	-
Mortage-backed securities: residential	18,033,114	-	18,033,114	-
Mortage-backed securities: commercial	5,282,668	-	5,282,668	-
Total	$ 66,595,388	$ -	$ 66,595,388	$ -

13. FAIR VALUE MEASUREMENTS (Continued)

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.

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:

	2017			
	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	$ 1,449,368	$ -	$ -	$ 1,449,368
Other real estate owned	181,812	-	-	181,812

	2016			
	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	$ 1,975,912	$ -	$ -	$ 1,975,912
Other real estate owned	268,209	-	-	268,209

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.

13. FAIR VALUE MEASUREMENTS (Continued)

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

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

	2017			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Impaired loans (collateral-dependent)	$ 1,449,368	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 81.6% (38.9%)
Other real estate owned	181,812	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	9%
	2016			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Impaired loans (collateral-dependent)	$ 1,975,912	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 39.0% (31.2%)
Other real estate owned	268,209	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	9%

(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.

14. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

2017	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash and cash equivalents	$ 17,541,909	$ 17,541,909	$ -	$ -	$ 17,541,909
Investment securities available for sale	73,042,150	-	73,042,150	-	73,042,150
Loans held for sale	848,772	848,772	-	-	848,772
Net loans	225,494,512	-	-	223,866,000	223,866,000
Bank-owned life insurance	8,015,095	8,015,095	-	-	8,015,095
Regulatory stock	1,283,950	1,283,950	-	-	1,283,950
Accrued interest receivable	942,146	942,146	-	-	942,146
Financial liabilities:					
Deposits	$ 276,826,246	$ 203,551,328	$ -	$ 72,626,000	$ 276,177,328
Federal Home Loan Bank advances	14,350,849	-	-	14,358,946	14,358,946
Subordinated debentures	2,450,000	-	-	2,327,500	2,327,500
Accrued interest payable	159,901	159,901	-	-	159,901

2016	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial assets:					
Cash and cash equivalents	$ 14,977,919	$ 14,977,919	$ -	$ -	$ 14,977,919
Investment securities available for sale	66,595,388	-	66,595,388	-	66,595,388
Loans held for sale	362,519	362,519	-	-	362,519
Net loans	218,050,977	-	-	217,575,193	217,575,193
Bank-owned life insurance	7,820,807	7,820,807	-	-	7,820,807
Regulatory stock	1,262,750	1,262,750	-	-	1,262,750
Accrued interest receivable	847,963	847,963	-	-	847,963
Financial liabilities:					
Deposits	$ 262,021,942	$ 186,306,556	$ -	$ 75,251,705	$ 261,558,261
Federal Home Loan Bank advances	15,467,212	-	-	15,514,852	15,514,852
Subordinated debentures	2,450,000	-	-	2,082,500	2,082,500
Accrued interest payable	141,459	141,459	-	-	141,459

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.

14. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

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

The fair value is equal to the current carrying value.

Investment Securities Available for Sale

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 Held for Sale

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

Net Loans

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

Bank-Owned Life Insurance

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

14. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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.

15. 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	
	2017	2016
Accumulated other comprehensive income (loss), January 1	$ (334,966)	$ 463,053
Other comprehensive gain (loss) before reclassification, net of tax	207,213	(789,158)
Amount reclassified from accumulated other comprehensive income	(4,675)	(8,861)
Total other comprehensive income (loss)	202,538	(798,019)
Accumulated other comprehensive income (loss), December 31	$ (132,428)	$ (334,966)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2017:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item on the Consolidated Statement of Income
Unrealized gains on available-for-sale securities		
Realized gains on securities available-for-sale		
	$ (5,918)	Net gains on sales of investment securities
	1,243	Income taxes
	$ (4,675)	Net of tax

15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2016:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item on the Consolidated Statement of Income
Unrealized gains on available-for-sale securities	$ (13,426)	Net gains on sales of investment securities
Realized gains on securities available-for-sale	4,565	Income taxes
	$ (8,861)	Net of tax

16. SUBSCRIPTION AND SHARE PURCHASE AGREEMENT

The Company offered shares of no par common stock for purchase through the terms of the Agreement entered into on January 25, 2017 and ending on March 28, 2017. The Agreement allowed the Company to sell up to 10,000 shares of common stock at an offering price of $93.40 per share to a limited number of offerees. The minimum purchase by a subscriber was 325 shares. The Company reissued treasury shares for all of the common stock sold through the Subscription and Share Purchase Agreement. Through the Agreement, the Company sold 5,080 shares of its treasury stock and received proceeds of $469,821, net of offering expenses of $4,651.

17. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2017, through March 30, 2018, 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 30, 2018.

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PORTAGE BANCSHARES, INC. - Officers

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

PORTAGE COMMUNITY BANK – Directors

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

PORTAGE COMMUNITY BANK – Officers

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Chief Executive Officer
Donald D. Herman
Vice President & Chief Financial Officer
Jill M. Conard
Vice President & Main Office Administrator
Deborah A. Bish
Vice President, Commercial Lending
Douglas L. Blay
Vice President, Commercial Lending
Karen L. Duffy
Vice President, Kent Office Manager
Tracy L. Cettomai
Assistant Vice President, Consumer Lending
Pamela M. England
Marketing Officer
Stormie L. Gross
Compliance Officer
Michelle A. Spellman
Operations Officer
Kevin T. Lewis
President & Chief Lending Office
Constance M. Bennett
Vice President & Chief Operations Officer
Dominic Bellino
Vice President, Loan Operations
Christine M. Black
Vice President, Operations Manager
Thomas K. Cargo
Vice President, Commercial Lending
Robert S. Standardi
Vice President, Controller
Thomas M. Biltz
Loan Operations Officer
Shelly K. Feciuch
Loan Operations Officer
Marissa L. Platt
Mortgage Loan Underwriting Officer

DIVISIONAL RESPONSIBILITIES

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

SHAREHOLDER INFORMATION

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