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Neighbors Serving Neighbors Since 1998

Portage Bancshares, Inc.

2018 ANNUAL REPORT

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PORTAGE BANCSHARES, INC.
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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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, 2018.

I am pleased to report record net income of $3,170,259 for 2018, which is up 43.18% from net income of $2,214,133 for 2017. Because of our strong capital position, the Board of Directors increased the cash dividend to $1.00 per share in 2018 from $0.95 per share in 2017 – a 5.26% increase. Basic earnings per share came in at $6.32 for 2018 as compared to $4.47 for 2017. We are extremely proud of these outstanding financial results.

In 2018, the Bank entered into its 20th year of operations. Since the founding of our financial institution, we have felt that local ownership, local management, and most importantly, local decisions were the keys to success for growing a successful community bank. We continue the same belief today with an enduring emphasis on our original vision of "Neighbors Serving Neighbors" as we remain dedicated to staying deeply rooted in our communities and being continually involved as leaders, volunteers, and active members in initiatives to make our communities stronger. We know our employees remain dedicated to our original vision by devoting 2,312 volunteer hours during the past year as part of our charitable efforts.

In recent years, the Company has embarked on a strategic initiative to find the right opportunity to grow our community bank. We are thrilled about our newest community partnership with the upcoming opening of our third banking office located at 140 Portage Trail, Cuyahoga Falls, in 2019. The community of Cuyahoga Falls has expressed their sincere desire to have Portage Community Bank as a part of their market and we are looking forward to expanding our footprint into Summit County. For the many residents of Cuyahoga Falls that value the community banking model, our new banking office will serve as a refreshing alternative. It is important to us that we acknowledge that the new strategic initiative will not alter the superior level of commitment and service we offer to our current customers and communities; however, the opportunity will enhance our footprint presence while providing significant shareholder value and additional community support as we move forward.

Also in 2018, the Company reported a change in the Board of Directors as Richard Leonard, who had been active and involved with our financial institution since day one, took on an emeritus status. Mr. Leonard had provided exceptional guidance and leadership as a member of the Portage Community Bank and Portage Bancshares, Inc. Boards of Directors and we greatly appreciate his many years of service and dedication over the past 20 years.

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 a new decade of existence in 2019, 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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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, 2018 and 2017, 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, 2018 and 2017, 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 22, 2019

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PORTAGE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 10,523,527	$ 15,744,882
Interest-bearing deposits in other financial institutions	1,759,624	1,488,027
Federal funds sold	-	309,000
Cash and cash equivalents	12,283,151	17,541,909
Investment securities available for sale	66,143,481	73,042,150
Loans held for sale	906,388	848,772
Loans	245,461,653	228,269,786
Less allowance for loan losses	2,962,035	2,775,274
Net loans	242,499,618	225,494,512
Regulatory stock	1,303,850	1,283,950
Premises and equipment, net	5,546,788	4,542,545
Bank-owned life insurance	8,209,061	8,015,095
Accrued interest receivable	990,909	942,146
Other assets	1,640,193	1,666,438
TOTAL ASSETS	$ 339,523,439	$ 333,377,517
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 51,039,953	$ 55,456,353
Interest-bearing demand	42,063,985	34,561,811
Savings	95,156,242	113,533,164
Time	88,074,306	73,274,918
Total deposits	276,334,486	276,826,246
Federal Home Loan Bank advances	17,419,023	14,350,849
Subordinated debentures	2,450,000	2,450,000
Accrued interest payable and other liabilities	4,332,825	3,676,215
TOTAL LIABILITIES	300,536,334	297,303,310
STOCKHOLDERS' EQUITY		
Common stock, no par value; 800,000 shares authorized, (Issued 551,970 and Outstanding 512,558 as of 12/31/18) (Issued 528,715 and Outstanding 495,658 as of 12/31/17)	21,415,643	19,856,098
Retained earnings	21,764,114	19,092,739
Accumulated other comprehensive income	(705,425)	(132,428)
Treasury stock, at cost (39,412 shares as of 12/31/18 and 33,057 shares as of 12/31/17)	(3,487,227)	(2,742,202)
TOTAL STOCKHOLDERS' EQUITY	38,987,105	36,074,207
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 339,523,439	$ 333,377,517

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2018	2017
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 11,193,088	$ 10,316,123
Federal funds sold and other interest income	166,889	157,364
Investment securities:		
Taxable	826,201	742,229
Exempt from federal income tax	706,780	695,535
Other dividend income	76,523	67,305
Total interest and dividend income	12,969,481	11,978,556
INTEREST EXPENSE		
Deposits	1,719,540	1,363,292
Federal Home Loan Bank advances	322,059	242,429
Subordinated debentures	131,086	105,798
Total interest expense	2,172,685	1,711,519
NET INTEREST INCOME	10,796,796	10,267,037
Provision for loan losses	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,796,796	10,267,037
NONINTEREST INCOME		
Service charges on deposit accounts	136,181	144,675
Net gains (losses) on sales of investment securities	(1,603)	5,918
Net gains on sales of loans	-	36,321
Secondary market fees	789,132	906,738
Earnings on bank-owned life insurance	193,966	194,288
Investment banking fees and commissions	271,029	300,852
Net gains from other real estate owned	34,188	63,032
Other income	309,999	304,793
Total noninterest income	1,732,892	1,956,617
NONINTEREST EXPENSE		
Salaries and employee benefits	5,086,901	4,789,200
Net occupancy and equipment expenses	484,339	456,310
Data processing	420,162	447,251
Professional fees	218,235	207,936
Marketing and business development	298,357	281,203
Financial institutions tax	263,520	290,000
Federal deposit insurance	94,700	102,589
Other expense	1,896,078	1,920,220
Total noninterest expense	8,762,292	8,494,709
Income before income taxes	3,767,396	3,728,945
Income taxes	597,137	1,514,812
NET INCOME	$ 3,170,259	$ 2,214,133
EARNINGS PER SHARE		
Basic	$ 6.32	$ 4.47
Diluted	6.22	4.37

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2018	2017
Net income	$ 3,170,259	$ 2,214,133
Other comprehensive income (loss):		
Unrealized holding loss arising during the period	(726,918)	262,295
Tax effect	152,654	(55,082)
Reclassification of investment securities gains recognized in net income	1,603	(5,918)
Tax effect	(336)	1,243
Total other comprehensive (loss) income	(572,997)	202,538
Comprehensive income	$ 2,597,262	$ 2,416,671

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, 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
Issuance of 5,080 shares of common 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
Purchase of 11,005 shares of treasury stock				(1,084,539)	(1,084,539)
Issuance of 100 shares of common stock awards	9,920				9,920
Stock-based compensation expense	8,986				8,986
Exercise of 23,155 shares of stock options	1,364,315				1,364,315
Tax benefits from exercise of stock options	69,138				69,138
Issuance of 4,650 shares of common stock for subscription and share purchase agreement	107,186			339,514	446,700
Cash dividends paid ($0.95 per share)		(498,884)			(498,884)
Net income		3,170,259			3,170,259
Other comprehensive loss			(572,997)		(572,997)
Balance, December 31, 2018	$ 21,415,643	$ 21,764,114	$ (705,425)	$ (3,487,227)	$ 38,987,105

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2018	2017
OPERATING ACTIVITIES		
Net income	$ 3,170,259	$ 2,214,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	-
Depreciation of premises and equipment	174,420	174,085
Net amortization of investment securities	669,666	678,917
Net realized (gain) loss on sales of investment securities	1,603	(5,918)
Net gain on sale of loans	-	(36,321)
Secondary market income	(789,132)	(906,738)
Originations of loans held for sale	(31,540,431)	(30,843,314)
Proceeds from sale of loans held for sale	31,482,815	30,357,061
Net realized gain on sales of other real estate owned	(34,188)	(63,032)
Stock-based compensation expense	8,986	9,527
Earnings on bank-owned life insurance	(193,966)	(194,288)
Deferred income taxes	(38,207)	412,864
Net amortization of deferred loan fees	(5,266)	29,494
Tax benefit from exercise of stock options	(69,138)	(132,107)
Other, net	840,180	375,600
Net cash provided by operating activities	3,677,601	2,069,963
INVESTING ACTIVITIES		
Available for sale Investment securities:		
Proceeds from sales	357,000	4,329,629
Proceeds from maturities, prepayments, and calls	9,370,076	8,103,946
Purchases	(4,224,988)	(19,213,441)
Purchase of Federal Home Loan Bank stock	(19,900)	(21,200)
Loan originations and payments, net	(16,341,648)	(6,704,420)
Additions to premises and equipment	(1,178,663)	(31,782)
Proceeds from sale of other real estate owned	218,700	323,879
Net cash used for investing activities	(11,819,423)	(13,213,389)
FINANCING ACTIVITIES		
Net change in deposits	(491,760)	14,804,304
Proceeds from Federal Home Loan Bank advances	6,000,000	2,500,000
Repayment of Federal Home Loan Bank advances	(2,931,826)	(3,616,363)
Net change in federal funds purchased	-	(490,000)
Purchase of treasury stock	(1,084,539)	(843,972)
Proceeds from the sale of treasury stock	446,700	469,821
Tax benefit from exercise of stock options	69,138	132,107
Proceeds from exercise of stock options	1,364,315	1,191,525
Proceeds from common stock award	9,920	28,020
Cash dividends paid	(498,884)	(468,026)
Net cash provided by financing activities	2,883,064	13,707,416
Increase (decrease) in cash and cash equivalents	(5,258,758)	2,563,990
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,541,909	14,977,919
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,283,151	$ 17,541,909

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 $906,388 and $848,772 at December 31, 2018 and 2017, 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, 2018 and 2017, the Company recorded $13,584 and $28,155 in compensation expenses on the Company's Consolidated Statement of Income. As of December 31, 2018 and 2017, there was $14,714 and $18,378 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 $69,138 and $132,107 of excess tax benefits included as a financing cash inflow for the years ended December 31, 2018 and 2017, 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 501,420 and 495,196 for December 31, 2018 and 2017, respectively. Diluted weighted-average common shares outstanding totaled 509,713 and 506,112 for December 31, 2018 and 2017, 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 2018 and 2017 were $2,067,163 and $1,693,077, respectively. Income tax payments totaled $380,000 in 2018 and $1,150,000 in 2017. The Company transferred $130,940 and $174,450 of loans from the portfolio to other real estate owned in 2018 and 2017, respectively. Fair value adjustments for securities available for sale in 2018 and 2017 were ($725,315) and $339,895, 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:

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored entities and agencies	$ 13,728,082	$ 14,048	$ (291,807)	$ 13,450,323
Obligations of states and political subdivisions	29,254,107	200,625	(216,880)	29,237,852
Mortage-backed securities: residential	17,902,963	28,508	(491,649)	17,439,822
Mortage-backed securities: commercial	6,151,274	285	(136,075)	6,015,484
Total	$ 67,036,426	$ 243,466	$ (1,136,411)	$ 66,143,481

	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

The amortized cost and fair value of investment securities at December 31, 2018, 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	$ 2,744,948	$ 2,735,557
Due after one year through five years	17,337,582	17,186,814
Due after five years through ten years	9,026,631	8,952,891
Due after ten years	13,873,028	13,812,912
Mortage-backed securities: residential	17,902,963	17,439,822
Mortage-backed securities: commercial	6,151,274	6,015,485
Total	$ 67,036,426	$ 66,143,481

Investment securities with a carrying value of $26,243,482 and $28,234,969 at December 31, 2018 and 2017, respectively, were pledged to secure deposits and other purposes as required by law.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

In 2018, the Company realized no gross gains and gross losses of $1,603 as a result of proceeds of $357,000 in investment securities available for sale. 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.

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:

	2018					
	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	$ 992,679	$ (1,944)	$ 10,712,910	$ (289,864)	$ 11,705,589	$ (291,808)
Obligations of states and political subdivisions	6,230,450	(20,286)	7,531,121	(196,594)	13,761,571	(216,880)
Mortage-backed securities: residential	1,599,078	(15,189)	14,215,277	(476,460)	15,814,355	(491,649)
Mortage-backed securities: commercial	3,082,536	(26,903)	2,528,749	(109,171)	5,611,285	(136,074)
Total	$ 11,904,743	$ (64,322)	$ 34,988,057	$ (1,072,089)	$ 46,892,800	$ (1,136,411)

	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)

The Company reviews its position quarterly and has asserted that at December 31, 2018, 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 124 positions that were temporarily impaired at December 31, 2018. 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:

	2018	2017
Commercial loans	$ 24,836,462	$ 25,170,663
Commercial real estate loans	121,169,557	110,048,004
Consumer loans	4,943,671	3,939,165
Residential loans	70,065,233	63,005,830
Home equity lines of credit	24,608,018	26,275,419
	245,622,941	228,439,081
Net deferred loan fees	(161,288)	(169,295)
Less allowance for loan losses	(2,962,035)	(2,775,274)
Net loans	$ 242,499,618	$ 225,494,512

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, 2018 and 2017, 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 2018, the qualitative factor percentages for commercial loans, commercial real estate loans, consumer loans, residential loans, and home equity lines of credit increased across the portfolios. The effect of economic trends and the trends in volumes and terms 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 real estate loans, consumer loans, and residential loans increased across all portfolios as compared to the prior end of year reserve balances, while the ending reserve balance for commercial loans and home equity lines of credit decreased due to a significant recoveries experienced in 2018 coupled with the rolling off of significant previous losses from the Company's 60-month historical loss history. In 2017 and 2018, the level of charge-offs activity experienced collectively was very 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 $2.9 million adequate to cover loan losses inherent in the loan portfolio, at December 31, 2018. 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:

2018	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 426,683	$ 1,045,893	$ 82,429	$ 521,749	$ 240,369	$ 458,151	$ 2,775,274
Charge-offs	(2,127)	-	(17,099)	(46,788)	(10,980)	-	(76,994)
Recoveries	9,166	246,071	34	8,484	-	-	263,755
Provision	(114,761)	(81,378)	53,405	309,305	(49,256)	(117,315)	-
Ending Balance	$ 318,961	$ 1,210,586	$ 118,769	$ 792,750	$ 180,133	$ 340,836	$ 2,962,035
Ending balance: individually evaluated for impairment	$ -	$ 31,270	$ 69,599	$ 152,701	$ -	$ -	$ 253,570
Ending balance: collectively evaluated for impairment	$ 318,961	$ 1,179,316	$ 49,170	$ 640,049	$ 180,133	$ 340,836	$ 2,708,465
Loans Receivable:							
Ending Balance	$ 24,836,462	$ 121,169,557	$ 4,943,671	$ 70,065,233	$ 24,608,018	$ -	$ 245,622,941
Ending balance: individually evaluated for impairment	$ 36,197	$ 1,044,406	$ 229,234	$ 293,953	$ -	$ -	$ 1,603,790
Ending balance: collectively evaluated for impairment	$ 24,800,265	$ 120,125,151	$ 4,714,437	$ 69,771,280	$ 24,608,018	$ -	$ 244,019,151

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

3. LOANS (Continued)

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2018 and 2017, 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, 2018		
	Commercial	Commercial Real Estate	Total
Pass	$ 22,440,082	$ 115,588,530	$ 138,028,611
Special mention	487,008	967,364	1,454,371
Substandard	1,909,372	4,613,663	6,523,036
Doubtful	-	-	-
Loss	-	-	-
Total	$ 24,836,462	$ 121,169,557	$ 146,006,019

	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	5,027,901	5,771,161
Doubtful	9,273	93,000	102,273
Loss	-	-	-
Total	$ 25,170,663	$ 110,048,004	$ 135,218,667

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:

2018	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 4,883,388	$ 69,568,366	$ 24,608,018	$ 99,059,772
Nonperforming	60,283	496,867	-	557,150
Total	$ 4,943,671	$ 70,065,233	$ 24,608,018	$ 99,616,922

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

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:

2018	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Nonaccrual	Total Loans
Commercial loans	$ -	$ -	$ -	$ -	$ 24,800,265	$ 36,197	$ 24,836,462
Commercial real estate loans	425,419	-	-	425,419	119,923,632	820,506	121,169,557
Consumer loans	13,645	-	-	13,645	4,869,743	60,283	4,943,671
Residential loans	514,301	-	134,967	649,268	69,054,065	361,900	70,065,233
Home equity lines of credit	201,652	-	-	201,652	24,406,366	-	24,608,018
Total	$ 1,155,017	$ -	$ 134,967	$ 1,289,984	$ 243,054,071	$ 1,278,886	$ 245,622,941

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	3,880,519	22,523	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	25,800,671	345,972	26,275,419
Total	$ 755,143	$ 32,561	$ 248,237	$ 1,035,941	$ 225,864,065	$ 1,539,075	$ 228,439,081

3. LOANS (Continued)

Interest income that would have been recorded had nonaccrual loans not been placed on nonaccrual status was $68,218 and $54,240 in 2018 and 2017, 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:

	2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial loans	$ 36,197	$ 59,664	$ -	$ 68,603	$ 5,094
Commercial real estate loans	892,262	924,016	-	920,674	39,090
Consumer loans	-	-	-	1,913	73
Residential loans	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
	$ 928,459	$ 983,680	$ -	$ 991,190	$ 44,257
With an allowance recorded:					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans	152,144	157,818	31,270	164,246	5,572
Consumer loans	229,234	282,959	69,599	206,547	10,379
Residential loans	293,953	293,953	152,701	296,585	17,338
Home equity lines of credit	-	-	-	-	-
	$ 675,331	$ 734,730	$ 253,570	$ 667,378	$ 33,289
Total:					
Commercial loans	$ 36,197	$ 59,664	$ -	$ 68,603	$ 5,094
Commercial real estate loans	1,044,406	1,081,834	31,270	1,084,920	44,662
Consumer loans	229,234	282,959	69,599	208,460	10,452
Residential loans	293,953	293,953	152,701	296,585	17,338
Home equity lines of credit	-	-	-	-	-
	$ 1,603,790	$ 1,718,410	$ 253,570	$ 1,658,568	$ 77,546

3. LOANS (Continued)

Impaired Loans (Continued)

	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

As of December 31, 2018, the Company had $128,240 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, 2018 and 2017, the Company has a recorded investment in troubled debt restructurings of $989,129 and $1,007,024, respectively. The Company allocated $250,889 and $222,744 of specific allowance for those loans at December 31, 2018 and 2017, respectively.

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

	2018		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Consumer loans	2	$ 189,829	$ 184,548

3. LOANS (Continued)

Troubled Debt Restructurings (Continued)

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

The consumer and commercial loans were modified by lowering the stated interest rates and/or extending the terms of the original loans. No principal reductions were made. Additional interest income of $33,139 and $31,478 would have been recognized for the years ended December 31, 2018 and 2017, 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 2018 comprised of a commercial loan in the amount of $2,127. 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.

4. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2018	2017
Land and land improvements	$ 2,026,056	$ 1,576,056
Building and leasehold improvements	4,398,791	3,813,248
Furniture, fixtures, and equipment	2,155,748	2,012,628
	8,580,595	7,401,932
Less accumulated depreciation	(3,033,807)	(2,859,387)
Total	$ 5,546,788	$ 4,542,545

Depreciation charged to operations was $174,420 in 2018 and $174,085 in 2017.

5. DEPOSITS

Time deposits at December 31, 2018, mature $43,237,566, $26,300,671, $13,500,263, $2,514,379, $2,065,358, and $456,071 during 2019, 2020, 2021, 2022, 2023, and thereafter respectively.

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $20,822,777 and $4,922,893 at December 31, 2018 and 2017, respectively.

The aggregate amount of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000 totaled $12,028,761 and $1,075,942 at December 31, 2018 and 2017, respectively.

5. DEPOSITS (Continued)

Included in certificates of deposit at December 31, 2018 and 2017, were $15,204,958 and $15,116,667, 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 $1,003,709 and $1,089,198 at December 31, 2018 and 2017, 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, 2018		At December 31, 2017
Mortgage match - amortizing	03/01/18	11/01/27	1.82	% $	10,419,023	$	12,350,849
Mortgage match - non-amortizing	01/06/14	01/06/16	1.65		2,000,000		2,000,000
Cash management line of credit	10/11/18	01/09/19	2.55		5,000,000		-
Total			2.01	% $	17,419,023	$	14,350,849

At December 31, 2018, the Bank had a cash management line of credit enabling it to borrow up to $15.0 million from the Federal Home Loan Bank of Cincinnati ("FHLB"). The line of credit must be renewed on an annual basis. There was $5.0 million in borrowings outstanding from the line of credit as of December 31, 2018 and there were no borrowings outstanding from the line of credit as of December 31, 2017. The Bank has a remaining borrowing capacity of $50.9 million at December 31, 2018.

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 $940,200 and $920,300 at December 31, 2018, and 2017, 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	
2019	$	7,964,615	1.70	%
2020		1,939,052	1.41	
2021		3,107,622	1.40	
2022		1,321,541	1.33	
2023		1,061,745	1.28	
Thereafter		2,024,448	1.19	
Total	$	17,419,023	2.01	%

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, 2018 and 2017.

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, 2018 and 2017, this equated to 5.64 percent and 4.46 percent, respectively.

8. INCOME TAXES

The provision for federal income taxes consists of:

	2018	2017
Current payable	$ 635,344	$ 1,101,948
Deferred	(38,207)	412,864
Total provision	$ 597,137	$ 1,514,812

No valuation allowance was established at December 31, 2018 and 2017, 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:

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 405,116	$ 405,116
Accrued expenses and employee benefits	548,875	483,280
Unrealized loss on available-for-sale securities	187,518	35,202
Deferred loan fees	33,870	35,552
Stock-based compensation	-	14,458
Deferred tax assets	1,175,379	973,608
Deferred tax liabilities:		
Depreciation	58,291	70,640
Federal Home Loan Bank stock dividends	28,119	28,119
Prepaid expenses	29,535	13,198
Security accretion	1,669	774
Stock-based compensation	6,365	-
Deferred tax liabilities	123,979	112,731
Net deferred tax assets	$ 1,051,400	$ 860,877

8. INCOME TAXES (Continued)

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

	2018		2017	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 791,153	21.0 %	$ 1,267,841	34.0 %
Tax-exempt interest	(156,221)	(4.1)	(257,011)	(6.9)
Earnings on bank-owned life insurance	(40,733)	(1.1)	(66,058)	(1.8)
Impact of enactment of federal tax reform	-	-	511,132	13.7
Other	2,938	0.1	58,908	1.6
Actual tax expense and effective rate	$ 597,137	15.9 %	$ 1,514,812	40.6 %

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 2015.

Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) established a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminated the corporate alternative minimum tax and allowed the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limited the deduction for net interest expense incurred by U.S. corporations, (iv) allowed businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminated or reduced certain deductions related to meals and entertainment expenses, (vi) modified the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarified the definition of a covered employee and (vii) limited the deductibility of deposit insurance premiums. The Tax Cuts and Jobs Act also significantly changed 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. As a result, we recognized a provisional net tax expense related to the remeasurement of our deferred tax assets and liabilities totaling $511,132 in 2017.

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 $220,686 and $199,063 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, was $1,808,997 and $1,705,730, respectively. The expense related to the plan was $125,311 and $233,690 for 2018 and 2017, respectively. Distributions to participants were $22,044 and $22,044 in 2018 and 2017, 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, 2018 and 2017, was $804,692 and $595,604, respectively. The expense related to the plan was $251,446 and $232,607 for 2018 and 2017, respectively.

Stock Option Plan

The Company has two share based compensation plans. The Company's 2004 and 2017 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:

`	2018	Weighted-Average Exercise Price	2017	Weighted-Average Exercise Price
Outstanding, January 1	33,565	$ 63.27	56,775	$ 58.39
Granted	-	-	-	-
Exercised	(23,155)	59.92	(23,210)	51.34
Forfeited	(20)	77.00	-	-
Outstanding, December 31	10,390	$ 72.94	33,565	$ 63.27
Exercisable at year-end	9,092	$ 72.36	30,739	$ 62.03

9. EMPLOYEE BENEFITS (Continued)

The following table summarizes the characteristics of stock options at December 31, 2018:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Remaining Average Life	Average Exercise Price	Shares	Average Exercise Price
1/24/2011	$ 63.10	1,900	2.06	$ 63.10	1,900	$ 63.10
1/25/2012	67.65	1,250	3.06	67.65	1,250	67.65
1/31/2013	71.50	750	4.08	71.50	750	71.50
2/19/2014	77.00	1,750	5.13	77.00	1,400	77.00
4/23/2014	77.00	4,740	5.31	77.00	3,792	77.00
		10,390		$ 72.94	9,092	$ 72.36

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:

	2018		2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused business lines of credit	$ 1,162,172	$ 24,359,208	$ 2,442,006	$ 22,702,897
Unused construction lines of credit	1,555,914	1,756,105	762,208	1,121,695
Unused consumer lines of credit	67,521	21,283,798	90,073	20,144,093
Standby letters of credit	-	57,500	-	57,500
Total	$ 2,785,607	$ 47,456,611	$ 3,294,287	$ 44,026,185

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, 2018 and December 31, 2017.

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 $1,782,000 and $1,743,000 for the years ended December 31, 2018 and 2017, 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 2018 is $5,678,561 plus 2019 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 1.875% during 2018 and 1.25% during 2017. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2018, 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 2018 and 2017, 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
2018						
Total Capital (to risk-weighted assets):						
Consolidated	$ 42,584,565	17.54 %	$ 19,418,570	8.00 %	$ 24,273,212	10.00
Portage Community Bank	42,879,038	17.68	19,403,440	8.00	24,254,300	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 39,622,530	16.32 %	$ 14,563,927	6.00 %	$ 19,418,570	8.00
Portage Community Bank	39,917,003	16.46	14,552,580	6.00	19,403,440	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 39,622,530	16.32 %	$ 10,922,946	4.50 %	$ 15,777,588	6.50
Portage Community Bank	39,917,003	16.46	10,914,435	4.50	15,765,295	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 39,622,530	11.64 %	$ 13,614,717	4.00 %	$ 17,018,396	5.00
Portage Community Bank	39,917,003	11.80	13,527,280	4.00	16,909,100	5.00

	Actual		Required for Capital Adequacy Purposes		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	6.00	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

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:

	2018			
	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	$ 13,450,323	$ -	$ 13,450,323	$ -
Obligations of states and political subdivisions	29,237,852	-	29,237,852	-
Mortage-backed securities: residential	17,439,822	-	17,439,822	-
Mortage-backed securities: commercial	6,015,484	-	6,015,484	-
Total	$ 66,143,481	$ -	$ 66,143,481	$ -

	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	$ -

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:

	2018			
	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	$ 1,350,220	$ -	$ -	$ 1,350,220
Other real estate owned	128,240	-	-	128,240

	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

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:

	2018			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Impaired loans (collateral-dependent)	$ 1,350,220	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 39.0% (33.9%)
Other real estate owned	128,240	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	9%
	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%

(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:

2018	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	$ 12,283,151	$ 12,283,151	$ -	$ -	$ 12,283,151
Investment securities available for sale	66,143,481	-	66,143,481	-	66,143,481
Loans held for sale	906,388	906,388	-	-	906,388
Net loans	242,499,618	-	-	240,264,000	240,264,000
Bank-owned life insurance	8,209,061	8,209,061	-		8,209,061
Regulatory stock	1,303,850	1,303,850	-		1,303,850
Accrued interest receivable	990,909	990,909	-		990,909
Financial liabilities:					
Deposits	$ 276,334,486	$ 188,260,180	$ -	$ 87,394,000	$ 275,654,180
Federal Home Loan Bank advances	17,419,023	-	-	17,427,119	17,427,119
Subordinated debentures	2,450,000	-	-	2,352,000	2,352,000
Accrued interest payable	265,423	265,423	-	-	265,423

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	$ 140,803,670	$ -	$ 72,626,000	$ 213,429,670
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

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	
	2018	2017
Accumulated other comprehensive income (loss), January 1	$ (132,428)	$ (334,966)
Other comprehensive gain (loss) before reclassification, net of tax	(574,264)	207,213
Amount reclassified from accumulated other comprehensive income	1,267	(4,675)
Total other comprehensive income (loss)	(572,997)	202,538
Accumulated other comprehensive income (loss), December 31	$ (705,425)	$ (132,428)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2018:

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	$ 1,603	Net gains on sales of investment securities
Realized gains on securities available-for-sale	(337)	Income taxes
	$ 1,266	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, 2017:

Details About Accumulated Other Comprehensive Income (Loss) Components		Other Comprehensive Income (Loss)	Affected Line Item on the Consolidated Statement of Income
Unrealized gains on available-for-sale securities	$	(5,918)	Net gains on sales of investment securities
Realized gains on securities available-for-sale		1,243	Income taxes
	$	(4,675)	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 April 25, 2018 and ending on September 26, 2018. The Agreement allowed the Company to sell up to 10,000 shares of common stock at an offering price of $97.00 per share to a limited number of offerees. The minimum purchase by a subscriber was 310 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 4,650 shares of its treasury stock and received proceeds of $446,700, net of offering expenses of $4,350.

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, 2018, through March 22, 2019, 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 22, 2019.

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PORTAGE BANCSHARES, INC. - Officers

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

PORTAGE COMMUNITY BANK – Directors

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

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
Dominic Bellino
Vice President, Loan Operations
Deborah A. Bish
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
Ann H. Durr
Market President
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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