Opening New Doors
Welcoming New Neighbors.

PORTAGE BANCSHARES, INC.™

2019 ANNUAL REPORT

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PORTAGE BANCSHARES, INC.
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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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, 2019.

Our continued emphasis on our vision of "Neighbors Serving Neighbors," along with local ownership, local management, and, most importantly, local decisions have contributed to our positive operating results, which includes record loan balances, the maintaining of a sound credit quality position, record deposit balances comprised of a stable core deposit base, and a continuing strong capital position. The Board of Directors increased the cash dividend to $1.05 per share in 2019 from $1.00 per share in 2018 – a 5.00% increase year-over-year. This represented the twelve consecutive year that the Company has declared a dividend since introducing a formal dividend practice. We are extremely proud of our sustained financial success and growth.

As discussed in the previous year's shareholder letter, we announced our newest community partnership with the purchase and renovation of our third banking office located at 140 Portage Trail, Cuyahoga Falls. The expansion of our footprint into Summit County was a direct result of our embarkment upon a strategic initiative to find the right opportunity to grow our community bank. I am very pleased to announce the completion and finished reconstruction of our new Cuyahoga Falls banking office, which officially opened for business in January 2020. Over the past year, we have been extremely pleased with the assemblance of our Cuyahoga Falls market team, who have worked diligently to introduce our community banking brand and present our competitive products and services to the residents and business owners of this vibrant community through many different volunteering endeavors, community events, and various business gatherings. Growth in deposits and lending has already stimulated through our team's outstanding efforts and we continue to be very excited about the potential growth as our new banking office continues to progress in 2020 and beyond.

Building on our recent expansion, we are thrilled about the potential surrounding our recent purchase of the former Chemical Bank branch office land and building located at 4183 Tallmadge Road, Rootstown. The southern Portage County market has expressed their sincere desire to have Portage Community Bank open a physical location to offset the loss from branch closures by financial institutions who strategically decided to exit their market area over recent years. The purchased location had been serving the needs of southern Portage County for over 45 years and we look forward to expanding on our long history of community involvement in the area with a planned fourth banking office location to better serve our current customers and attract new ones with an anticipated opening date in 2021.

It is important to us that we acknowledge that our strategic growth initiatives have not altered our superior level of commitment and services to our current customers and communities; however, the opportunities have presented our community bank with the opportunity to enhance our footprint presence while providing significant shareholder value and additional community support as we move forward.

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 the new decade of 2020, 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, 2019 and 2018, 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, 2019 and 2018, 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 13, 2020

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511 North 4th Street, Steubenville, OH 43952

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PORTAGE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 9,925,513	$ 10,523,527
Interest-bearing deposits in other financial institutions	1,243,149	1,759,624
Federal funds sold	206,000	-
Cash and cash equivalents	11,374,662	12,283,151
Investment securities available for sale	62,355,690	66,143,481
Loans held for sale	1,497,941	906,388
Loans	265,710,733	245,461,653
Less allowance for loan losses	2,938,484	2,962,035
Net loans	262,772,249	242,499,618
Regulatory stock	1,447,250	1,303,850
Premises and equipment, net	6,733,277	5,546,788
Bank-owned life insurance	8,395,849	8,209,061
Accrued interest receivable	999,039	990,909
Other assets	1,309,906	1,640,193
TOTAL ASSETS	$ 356,885,863	$ 339,523,439
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 54,778,227	$ 51,039,953
Interest-bearing demand	43,304,107	42,063,985
Savings	91,470,719	95,156,242
Time	101,808,183	88,074,306
Total deposits	291,361,236	276,334,486
Federal Home Loan Bank advances	15,954,408	17,419,023
Subordinated debentures	2,450,000	2,450,000
Accrued interest payable and other liabilities	4,676,743	4,332,825
TOTAL LIABILITIES	314,442,387	300,536,334
STOCKHOLDERS' EQUITY		
Common stock, no par value; 800,000 shares authorized, (Issued 551,970 and Outstanding 510,074 as of 12/31/19) (Issued 551,970 and Outstanding 512,558 as of 12/31/18)	21,523,912	21,415,643
Retained earnings	24,084,232	21,764,114
Accumulated other comprehensive income	686,389	(705,425)
Treasury stock, at cost (41,896 shares as of 12/31/19, and 39,412 shares as of 12/31/18)	(3,851,057)	(3,487,227)
TOTAL STOCKHOLDERS' EQUITY	42,443,476	38,987,105
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 356,885,863	$ 339,523,439

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF INCOME

		Year Ended December 31,		
		2019		2018
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	$	12,535,100	$	11,193,088
Federal funds sold and other interest income		230,898		166,889
Investment securities:				
Taxable		863,402		826,201
Exempt from federal income tax		637,741		706,780
Other dividend income		71,730		76,523
Total interest and dividend income		14,338,871		12,969,481
INTEREST EXPENSE				
Deposits		2,751,306		1,719,540
Federal Home Loan Bank advances		328,444		322,059
Subordinated debentures		137,630		131,086
Total interest expense		3,217,380		2,172,685
NET INTEREST INCOME		11,121,491		10,796,796
Provision for loan losses		-		-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		11,121,491		10,796,796
NONINTEREST INCOME				
Service charges on deposit accounts		131,791		136,181
Net gains (losses) on sales of investment securities		2,870		(1,603)
Secondary market fees		898,012		789,132
Earnings on bank-owned life insurance		186,788		193,966
Investment banking fees and commissions		266,687		271,029
Net gains from other real estate owned		(9,421)		34,188
Other income		318,626		309,999
Total noninterest income		1,795,353		1,732,892
NONINTEREST EXPENSE				
Salaries and employee benefits		5,592,170		5,086,901
Net occupancy and equipment expenses		574,303		484,339
Data processing		437,616		420,162
Professional fees		227,025		218,235
Marketing and business development		270,944		298,357
Financial institutions tax		335,000		263,520
Federal deposit insurance		45,555		94,700
Other expense		2,044,212		1,896,078
Total noninterest expense		9,526,825		8,762,292
Income before income taxes		3,390,019		3,767,396
Income taxes		532,556		597,137
NET INCOME	$	2,857,463	$	3,170,259
EARNINGS PER SHARE				
Basic	$	5.61	$	6.32
Diluted		5.58		6.22

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2019	2018
Net income	$ 2,857,463	$ 3,170,259
Other comprehensive income (loss):		
Unrealized holding gain (loss) arising during the period	1,764,660	(726,918)
Tax effect	(370,579)	152,654
Reclassification of investment securities (gains) losses recognized in net income	(2,870)	1,603
Tax effect	603	(336)
Total other comprehensive (loss) income	1,391,814	(572,997)
Comprehensive income	$ 4,249,277	$ 2,597,262

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, 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 ($1.00 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
Purchase of 6,320 shares of treasury stock				(651,300)	(651,300)
Forfeiture of 100 shares of common stock awards	(9,660)				(9,660)
Exercise of 100 shares of stock options	7,700				7,700
Issuance of 3,836 shares of common stock for subscription and share purchase agreement	110,229			287,470	397,699
Cash dividends paid ($1.05 per share)		(537,345)			(537,345)
Net income		2,857,463			2,857,463
Other comprehensive income			1,391,814		1,391,814
Balance, December 31, 2019	$ 21,523,912	$ 24,084,232	$ 686,389	$ (3,851,057)	$ 42,443,476

See accompanying notes to consolidated financial statements.

PORTAGE BANCSHARES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2019	2018
OPERATING ACTIVITIES		
Net income	$ 2,857,463	$ 3,170,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	-
Depreciation of premises and equipment	191,723	174,420
Net amortization of investment securities	518,538	669,666
Net realized (gain) loss on sales of investment securities	(2,870)	1,603
Secondary market income	(898,012)	(789,132)
Originations of loans held for sale	(35,660,298)	(31,540,431)
Proceeds from sale of loans held for sale	35,068,745	31,482,815
Net realized gain on sales of other real estate owned	9,421	(34,188)
Stock-based compensation expense	-	8,986
Earnings on bank-owned life insurance	(186,788)	(193,966)
Deferred income taxes	(75,596)	(38,207)
Net amortization of deferred loan fees	9,224	(5,266)
Tax benefit from exercise of stock options	-	(69,138)
Other, net	271,095	840,180
Net cash provided by operating activities	2,102,645	3,677,601
INVESTING ACTIVITIES		
Available for sale Investment securities:		
Proceeds from sales	3,542,645	357,000
Proceeds from maturities, prepayments, and calls	12,627,362	9,370,076
Purchases	(11,136,094)	(4,224,988)
Purchase of Federal Home Loan Bank stock	(143,400)	(19,900)
Loan originations and payments, net	(19,401,123)	(16,341,648)
Additions to premises and equipment	(1,378,212)	(1,178,663)
Proceeds from sale of other real estate owned	98,799	218,700
Net cash used for investing activities	(15,790,023)	(11,819,423)
FINANCING ACTIVITIES		
Net change in deposits	15,026,750	(491,760)
Proceeds from Federal Home Loan Bank advances	6,500,000	6,000,000
Repayment of Federal Home Loan Bank advances	(7,964,615)	(2,931,826)
Purchase of treasury stock	(651,300)	(1,084,539)
Proceeds from the sale of treasury stock	397,699	446,700
Tax benefit from exercise of stock options	-	69,138
Proceeds from exercise of stock options	7,700	1,364,315
Proceeds from common stock award	-	9,920
Cash dividends paid	(537,345)	(498,884)
Net cash provided by financing activities	12,778,889	2,883,064
Increase (decrease) in cash and cash equivalents	(908,489)	(5,258,758)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,283,151	17,541,909
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,374,662	$ 12,283,151

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 $1,497,941 and $906,388 at December 31, 2019 and 2018, respectively.

Loans

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

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

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

Allowance for Loan Losses

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

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

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

Premises and Equipment

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

Bank-Owned Life Insurance (BOLI)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

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

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

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

Benefit Plans

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

Stock Options

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

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

During the year ended December 31, 2019 and 2018, the Company recorded $3,307 and $13,584 in compensation expenses on the Company's Consolidated Statement of Income. As of December 31, 2019 and 2018, there was $5,236 and $14,714 of unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next two years.

The cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) are classified as financing cash flows. The Company did not recognize any excess tax benefits for the year ended December 31, 2019, in the Statement of Cash Flows. The Company recognized $69,138 of excess tax benefits included as a financing cash inflow for the year ended December 31, 2018, 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 509,082 and 501,420 for December 31, 2019 and 2018, respectively. Diluted weighted-average common shares outstanding totaled 512,152 and 509,713 for December 31, 2019 and 2018, 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 2019 and 2018 were $3,132,806 and $2,067,163, respectively. Income tax payments totaled $1,150,000 in 2019 and $380,000 in 2018. The Company transferred $17,280 and $130,940 of loans from the portfolio to other real estate owned in 2019 and 2018, respectively. Fair value adjustments for securities available for sale in 2019 and 2018 were $1,761,791 and ($725,315), 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:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored entities and agencies	$ 15,485,007	$ 77,686	$ (17,923)	$ 15,544,770
Obligations of states and political subdivisions	23,816,438	724,579	(4)	24,541,013
Mortgage-backed securities: residential	16,232,663	139,287	(34,932)	16,337,018
Mortgage-backed securities: commercial	5,952,736	12,609	(32,456)	5,932,889
Total	$ 61,486,844	$ 954,161	$ (85,315)	$ 62,355,690

	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
Mortgage-backed securities: residential	17,902,963	28,508	(491,649)	17,439,822
Mortgage-backed securities: commercial	6,151,274	285	(136,075)	6,015,484
Total	$ 67,036,426	$ 243,466	$ (1,136,411)	$ 66,143,481

The amortized cost and fair value of investment securities at December 31, 2019, 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	$ 5,498,478	$ 5,496,141
Due after one year through five years	13,509,963	13,685,673
Due after five years through ten years	8,985,886	9,234,991
Due after ten years	11,307,118	11,668,978
Mortgage-backed securities: residential	16,232,663	16,337,018
Mortgage-backed securities: commercial	5,952,736	5,932,889
Total	$ 61,486,844	$ 62,355,690

Investment securities with a carrying value of $31,104,100 and $26,243,482 at December 31, 2019 and 2018, respectively, were pledged to secure deposits and other purposes as required by law.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

In 2019, the Company realized gross gains of $16,320 and gross losses of $13,450 as a result of proceeds of $3,542,645 in investment securities available for sale. 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.

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:

	2019					
	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	$ 2,746,106	$ (4,654)	$ 5,986,147	$ (13,269)	$ 8,732,253	$ (17,923)
Obligations of states and political subdivisions	412,489	(4)	-	-	412,489	(4)
Mortgage-backed securities: residential	2,837,256	(15,871)	3,038,737	(19,061)	5,875,993	(34,932)
Mortgage-backed securities: commercial	3,491,633	(17,185)	874,275	(15,271)	4,365,908	(32,456)
Total	$ 9,487,484	$ (37,714)	$ 9,899,159	$ (47,601)	$ 19,386,643	$ (85,315)

	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)
Mortgage-backed securities: residential	1,599,078	(15,189)	14,215,277	(476,460)	15,814,355	(491,649)
Mortgage-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)

The Company reviews its position quarterly and has asserted that at December 31, 2019, 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 45 positions that were temporarily impaired at December 31, 2019. 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:

	2019	2018
Commercial loans	$ 24,556,201	$ 24,836,462
Commercial real estate loans	135,629,572	121,169,557
Consumer loans	6,239,516	4,943,671
Residential loans	75,905,199	70,065,233
Home equity lines of credit	23,547,508	24,608,018
	265,877,996	245,622,941
Net deferred loan fees	(167,263)	(161,288)
Less allowance for loan losses	(2,938,484)	(2,962,035)
Net loans	$ 262,772,249	$ 242,499,618

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, 2019 and 2018, 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 2019, the qualitative factor percentages for consumer loans slightly decreased while the qualitative factors for commercial loans, commercial real estate loans, home equity lines of credit, and residential loans marginally increased during the year. The effect of the trends in risk volume and terms as well as levels and trends in delinquencies contributed to the fluctuation in qualitative factor percentages for commercial loans and commercial real estate loans. The primary factor contributing to the fluctuation in the qualitative factors relating to residential loans and home equity lines of credit was strictly the effect of levels and trends in delinquencies. The improvement in the levels and trends in delinquencies in consumer loans was the primary factor contributing to the improvement in the qualitative factors within the portfolio during the year. The ending reserve balances for commercial real estate 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. The increases within the commercial real estate loan ending reserve balance and the residential loan ending reserve balances were primarily affected by significant increases within those particular loan portfolios overall throughout 2019. The ending reserve balances for consumer loans and home equity lines of credit did not increase as significantly as the other portfolios, which was due to a combination of sustained loan growth and changes in qualitative factors. The ending reserve balance for commercial loans decreased as compared to the prior year end reserve balance. Overall, a lower level of charge-off and recovery activity had been experienced in 2019 and 2018 as compared to prior years.

3. LOANS (Continued)

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $2.9 million adequate to cover loan losses inherent in the loan portfolio, at December 31, 2019. 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:

2019	Commercial	Commercial Real Estate	Consumer	Residential	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 318,961	$ 1,210,586	$ 118,769	$ 792,750	$ 180,133	$ 340,836	$ 2,962,035
Charge-offs	-	-	(2,533)	(60,614)	-	-	(63,147)
Recoveries	36,456	-	3,140	-	-	-	39,596
Provision	(125,381)	224,891	11,318	112,113	29,435	(252,376)	-
Ending Balance	$ 230,036	$ 1,435,477	$ 130,694	$ 844,249	$ 209,568	$ 88,460	$ 2,938,484
Ending balance: individually evaluated for impairment	$ -	$ 24,203	$ 81,839	$ 145,100	$ -	$ -	$ 251,142
Ending balance: collectively evaluated for impairment	$ 230,036	$ 1,411,274	$ 48,855	$ 699,149	$ 209,568	$ 88,460	$ 2,687,342
Loans Receivable:							
Ending Balance	$ 24,556,201	$ 135,629,572	$ 6,239,516	$ 75,905,199	$ 23,547,508	$ -	$ 265,877,996
Ending balance: individually evaluated for impairment	$ 22,197	$ 4,108,462	$ 260,233	$ 288,507	$ -	$ -	$ 4,679,399
Ending balance: collectively evaluated for impairment	$ 24,534,004	$ 131,521,110	$ 5,979,283	$ 75,616,692	$ 23,547,508	$ -	$ 261,198,597

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

3. LOANS (Continued)

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2019 and 2018, 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, 2019		
	Commercial	Commercial Real Estate	Total
Pass	$ 22,878,230	$ 129,869,075	$ 152,747,305
Special mention	567,344	1,048,373	1,615,717
Substandard	1,110,627	4,712,124	5,822,751
Doubtful	-	-	-
Loss	-	-	-
Total	$ 24,556,201	$ 135,629,572	$ 160,185,773

	As of December 31, 2018		
	Commercial	Commercial Real Estate	Total
Pass	$ 22,440,082	$ 115,588,530	$ 138,028,612
Special mention	487,008	967,364	1,454,372
Substandard	1,909,372	4,613,663	6,523,035
Doubtful	-	-	-
Loss	-	-	-
Total	$ 24,836,462	$ 121,169,557	$ 146,006,019

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:

	2019			
	Consumer	Residential	Home Equity Lines of Credit	Total
Performing	$ 6,190,449	$ 75,489,069	$ 23,390,434	$ 105,069,952
Nonperforming	49,067	416,130	157,074	622,271
Total	$ 6,239,516	$ 75,905,199	$ 23,547,508	$ 105,692,223

	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

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:

	2019						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater & Accruing	Total Past Due	Current	Nonaccrual	Total Loans
Commercial loans	$ -	$ -	$ -	$ -	$ 21,730,792	$ 2,825,409	$ 24,556,201
Commercial real estate loans	39,788	-	-	39,788	135,567,587	22,197	135,629,572
Consumer loans	22,003	-	-	22,003	6,168,446	49,067	6,239,516
Residential loans	988,173	73,301	-	1,061,474	74,427,595	416,130	75,905,199
Home equity lines of credit	413,655	25,075	869	439,599	22,951,704	156,205	23,547,508
Total	$ 1,463,619	$ 98,376	$ 869	$ 1,562,864	$ 260,846,124	$ 3,469,008	$ 265,877,996

	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

3. LOANS (Continued)

Interest income that would have been recorded had nonaccrual loans not been placed on nonaccrual status was $157,929 and $68,218 in 2019 and 2018, 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:

	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial loans	$ 22,197	$ 45,664	$ -	$ 30,633	$ 4,339
Commercial real estate loans	4,016,747	4,064,073	-	3,043,503	95,122
Consumer loans	-	-	-	263	1,165
Residential loans	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
	$ 4,038,944	$ 4,109,737	$ -	$ 3,074,399	$ 100,626
With an allowance recorded:					
Commercial loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans	91,715	91,715	24,203	96,237	1,952
Consumer loans	260,233	291,409	81,839	248,004	11,652
Residential loans	288,507	288,507	145,100	291,417	17,321
Home equity lines of credit	-	-	-	-	-
	$ 640,455	$ 671,631	$ 251,142	$ 635,658	$ 30,925
Total:					
Commercial loans	$ 22,197	$ 45,664	$ -	$ 30,633	$ 4,339
Commercial real estate loans	4,108,462	4,155,788	24,203	3,139,740	97,074
Consumer loans	260,233	291,409	81,839	248,267	12,817
Residential loans	288,507	288,507	145,100	291,417	17,321
Home equity lines of credit	-	-	-	-	-
	$ 4,679,399	$ 4,781,368	$ 251,142	$ 3,710,057	$ 131,551

3. LOANS (Continued)

Impaired Loans (Continued)

	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

As of December 31, 2019, the Company had $37,300 of foreclosed real estate property obtained by physical possession and $167,589 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, 2019 and 2018, the Company has a recorded investment in troubled debt restructurings of $1,003,617 and $989,129, respectively. The Company allocated $251,142 and $250,889 of specific allowance for those loans at December 31, 2019 and 2018, respectively.

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

	2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Consumer loans	2	$ 53,727	$ 52,018

3. LOANS (Continued)

Troubled Debt Restructurings (Continued)

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

The consumer loans were modified by lowering the stated interest rates and/or extending the terms of the original loans. No principal reductions were made. Additional interest income of $31,539 and $31,478 would have been recognized for the years ended December 31, 2019 and 2018, respectively, at the original interest rate as compared to the adjusted interest rate on the troubled debt restructurings.

The Company did not have any payment defaults on troubled debt restructuring contracts during 2019. The Company had a payment default on one troubled debt restructuring contract during 2019 comprised of a commercial loan totaling $2,127.

4. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2019	2018
Land and land improvements	$ 2,026,056	$ 2,026,056
Building and leasehold improvements	5,514,680	4,398,791
Furniture, fixtures, and equipment	2,418,071	2,155,748
	9,958,807	8,580,595
Less accumulated depreciation	(3,225,530)	(3,033,807)
Total	$ 6,733,277	$ 5,546,788

Depreciation charged to operations was $191,723 in 2019 and $174,420 in 2018.

5. DEPOSITS

Time deposits at December 31, 2019, mature $71,005,706, $21,311,518, $5,507,846, $2,004,024, $1,360,251, and $618,838 during 2020, 2021, 2022, 2023, 2024 and thereafter respectively.

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $32,230,966 and $20,822,777 at December 31, 2019 and 2018, respectively.

The aggregate amount of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000 totaled $17,910,909 and $12,028,761 at December 31, 2019 and 2018, respectively.

5. DEPOSITS (Continued)

Included in certificates of deposit at December 31, 2019 and 2018, were $15,641,449 and $15,204,958, 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 $1,286,473 and $1,003,709 at December 31, 2019 and 2018, 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, 2019	At December 31, 2018
Mortgage match - amortizing	01/01/20	11/01/29	1.82 %	$ 7,954,408	$ 10,419,023
Mortgage match - non-amortizing	02/01/21	03/27/24	1.65	8,000,000	2,000,000
Cash management advances - variable				-	5,000,000
Total			2.01 %	$ 15,954,408	$ 17,419,023

At December 31, 2019, 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, 2019 and $5.0 million in borrowings outstanding from the line of credit as of December 31, 2018. The Bank has a remaining borrowing capacity of $53.0 million at December 31, 2019.

Borrowings from FHLB are secured with a blanket security agreement and required investment in FHLB member bank stock. As part of the security agreement, the Bank maintains unencumbered qualifying assets (principally 1-4 family residential mortgage loans) in an amount at least as much as the advances from the FHLB. Additionally, the Bank's FHLB stock of $1,083,600 and $940,200 at December 31, 2019, and 2018, 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
2020	$ 1,939,052	2.04 %
2021	4,607,622	2.10
2022	3,821,541	2.23
2023	1,061,745	2.33
2024	3,331,179	2.02
Thereafter	1,193,269	1.66
Total	$ 15,954,408	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, 2019 and 2018.

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 subordinated debentures have a variable rate of interest equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85 percent, which was 4.82 percent and 5.64 percent at December 31, 2019 and 2018, respectively.

8. INCOME TAXES

The provision for federal income taxes consists of:

	2019	2018
Current payable	$ 608,152	$ 635,344
Deferred	(75,596)	(38,207)
Total provision	$ 532,556	$ 597,137

No valuation allowance was established at December 31, 2019 and 2018, 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:

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 405,116	$ 405,116
Accrued expenses and employee benefits	619,127	548,875
Unrealized loss on available-for-sale securities	-	187,518
Deferred loan fees	35,125	33,870
Deferred tax assets	1,059,368	1,175,379
Deferred tax liabilities:		
Depreciation	58,291	58,291
Unrealized gain on available-for-sale securities	182,458	-
Federal Home Loan Bank stock dividends	28,119	28,119
Prepaid expenses	25,756	29,535
Security accretion	1,359	1,669
Stock-based compensation	6,365	6,365
Deferred tax liabilities	302,348	123,979
Net deferred tax assets	$ 757,020	$ 1,051,400

8. INCOME TAXES (Continued)

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

	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 711,904	21.0 %	$ 791,153	21.0 %
Tax-exempt interest	(142,757)	(4.2)	(156,221)	(4.1)
Earnings on bank-owned life insurance	(39,225)	(1.2)	(40,733)	(1.1)
Other	2,634	0.1	2,938	0.1
Actual tax expense and effective rate	$ 532,556	15.7 %	$ 597,137	15.9 %

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

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 2016.

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 $237,722 and $220,686 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, was $1,915,555 and $1,808,997, respectively. The expense related to the plan was $115,743 and $125,311 for 2019 and 2018, respectively. Distributions to participants were $9,185 and $22,044 in 2019 and 2018, respectively.

9. EMPLOYEE BENEFITS (Continued)

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, 2019 and 2018, was $1,032,670 and $804,692, respectively. The expense related to the plan was $273,878 and $251,446 for 2019 and 2018, respectively.

Stock Option Plan

The Company has a fixed director and employee stock-based compensation plan. Under the plan, the Company may grant options for up to 200,000 shares of common stock. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant. Vesting occurs at 20 percent per year of service.

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

`	2019	Weighted-Average Exercise Price	2018	Weighted-Average Exercise Price
Outstanding, January 1	10,390	$ 72.94	33,565	$ 63.27
Granted	-	-	-	-
Exercised	(100)	77.00	(23,155)	59.92
Forfeited	-	-	(20)	77.00
Outstanding, December 31	10,290	$ 72.90	10,390	$ 72.94
Exercisable at year-end	10,290	$ 72.90	9,092	$ 72.36

The following table summarizes the characteristics of stock options at December 31, 2019:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Remaining Average Life	Average Exercise Price	Shares	Average Exercise Price
1/24/2011	$ 63.10	1,900	1.06	$ 63.10	1,900	$ 63.10
1/25/2012	67.65	1,250	2.06	67.65	1,250	67.65
1/31/2013	71.50	750	3.08	71.50	750	71.50
2/19/2014	77.00	1,650	4.13	77.00	1,650	77.00
4/23/2014	77.00	4,740	4.31	77.00	4,740	77.00
		10,290		$ 72.90	10,290	$ 72.90

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:

	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused business lines of credit	$ 723,695	$ 23,829,499	$ 1,162,172	$ 24,359,208
Unused construction lines of credit	587,845	2,962,262	1,555,914	1,756,105
Unused consumer lines of credit	52,574	21,705,003	67,521	21,283,798
Standby letters of credit	-	57,500	-	57,500
Total	$ 1,364,114	$ 48,554,264	$ 2,785,607	$ 47,456,611

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 3.875 percent to 18.00 percent at December 31, 2019 and 3.50 percent to 18.00 percent at December 31, 2018.

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 $1,868,000 and $1,782,000 for the years ended December 31, 2019 and 2018, 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.

11. REGULATORY RESTRICTIONS (Continued)

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 2019 is $6,357,298 plus 2020 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 banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2019, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as in asset growth and expansion, and capital restoration plans are required. At year-end 2019 and 2018, the most recent regulatory notifications categorized the Company as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019						
Total Capital (to risk-weighted assets):						
Consolidated	$ 44,625,571	17.14 %	$ 20,823,242	8.00 %	$ 26,029,053	10.00
Portage Community Bank	45,886,164	17.63	20,816,480	8.00	26,020,600	10.00
Tier 1 (Core) Capital (to risk-weighted assets):						
Consolidated	$ 41,687,087	16.02 %	$ 15,617,432	6.00 %	$ 20,823,242	8.00
Portage Community Bank	42,947,681	16.51	15,612,360	6.00	20,816,480	8.00
Common Equity Tier 1 (CET1) Capital (to risk-weighted assets):						
Consolidated	$ 41,687,087	16.02 %	$ 11,713,074	4.50 %	$ 16,918,884	6.50
Portage Community Bank	42,947,681	16.51	11,709,270	4.50	16,913,390	6.50
Tier 1 (Core) Capital (to average assets):						
Consolidated	$ 41,687,087	11.56 %	$ 14,421,617	4.00 %	$ 18,027,022	5.00
Portage Community Bank	42,947,681	11.94	14,389,720	4.00	17,987,150	5.00

12. REGULATORY CAPITAL MATTERS (Continued)

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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

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.

13. FAIR VALUE MEASUREMENTS (Continued)

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

	2019			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements on a recurring basis:				
Securities available for sale:				
U.S. government sponsored entities and agencies	$ 15,544,770	$ -	$ 15,544,770	$ -
Obligations of states and political subdivisions	24,541,013	-	24,541,013	-
Mortgage-backed securities: residential	16,337,018	-	16,337,018	-
Mortgage-backed securities: commercial	5,932,889	-	5,932,889	-
Total	$ 62,355,690	$ -	$ 62,355,690	$ -

	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	-
Mortgage-backed securities: residential	17,439,822	-	17,439,822	-
Mortgage-backed securities: commercial	6,015,484	-	6,015,484	-
Total	$ 66,143,481	$ -	$ 66,143,481	$ -

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.

13. FAIR VALUE MEASUREMENTS (Continued)

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

	2019						
		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	$	4,428,257	$	-	$	-	$	4,428,257
Other real estate owned		37,300		-		-		37,300

	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

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

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

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

	2019				
		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Averages)
Impaired loans (collateral-dependent)	$	4,428,257	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 40.5% (32.5%)
Other real estate owned		37,300	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	9%

	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%

13. FAIR VALUE MEASUREMENTS (Continued)

(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:

	2019			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 11,374,662	$ 11,374,662	$ -	$ -
Investment securities available for sale	62,355,690	-	62,355,690	-
Loans held for sale	1,497,941	1,497,941	-	-
Net loans	262,772,249	-	-	262,725,000
Bank-owned life insurance	8,395,849	8,395,849	-	
Regulatory stock	1,447,250	1,447,250	-	
Accrued interest receivable	999,039	999,039	-	
Financial liabilities:				
Deposits	$ 291,361,236	$ 189,553,053	$ -	$ 102,082,000
Federal Home Loan Bank advances	15,954,408	-	-	16,149,194
Subordinated debentures	2,450,000	-	-	2,082,500
Accrued interest payable	349,997	349,997	-	-

15. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Contined)

	2018			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 12,283,151	$ 12,283,151	$ -	$ -
Investment securities available for sale	66,143,481	-	66,143,481	-
Loans held for sale	906,388	906,388	-	-
Net loans	242,499,618	-	-	240,264,000
Bank-owned life insurance	8,209,061	8,209,061	-	-
Regulatory stock	1,303,850	1,303,850	-	-
Accrued interest receivable	990,909	990,909	-	-
Financial liabilities:				
Deposits	$ 276,334,486	$ 188,260,180	$ -	$ 87,394,000
Federal Home Loan Bank advances	17,419,023	-	-	17,427,119
Subordinated debentures	2,450,000	-	-	2,352,000
Accrued interest payable	265,423	265,423	-	-

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

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

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

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

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

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

The fair value is equal to the current carrying value.

14. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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.

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	
	2019	2018
Accumulated other comprehensive income (loss), January 1	$ (705,425)	$ (132,428)
Other comprehensive gain (loss) before reclassification, net of tax	1,394,082	(574,264)
Amount reclassified from accumulated other comprehensive income	(2,267)	1,267
Total other comprehensive income (loss)	1,391,815	(572,997)
Accumulated other comprehensive income (loss), December 31	$ 686,390	$ (705,425)

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, 2019:

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	$	(2,870)	Net gains on sales of investment securities
Realized gains on securities available-for-sale		603	Income taxes
	$	(2,267)	Net of tax

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		(336)	Income taxes
	$	1,267	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 November 4, 2019 and ending on December 31, 2019. The Agreement allowed the Company to sell up to 10,000 shares of common stock at an offering price of $104.40 per share to a limited number of offerees. The minimum purchase by a subscriber was 300 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 3,836 shares of its common stock and received proceeds of $397,699, net of offering expenses of $2,780.

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 common stock and received proceeds of $446,700, net of offering expenses of $4,350.

17. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2019, through March 13, 2020, 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 13, 2020.

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PORTAGE BANCSHARES, INC. - Officers

Margaret F. Medzie, *President*

Thomas S. Siciliano, *Treasurer*

Timothy E. Crock, *Secretary*

PORTAGE COMMUNITY BANK – Directors

Lee L. Jenior, *Chairman of the Board*

Thomas S. Siciliano, *Director*

Richard J. Coe, *Director*

James V. Damicone, *Director*

Paul Huchok, *Director*

Emilio Ferrara, *Director Emeritus*

Margaret F. Medzie, *Vice Chairman of the Board*

Dr. Aaron A. Moats, *Director*

Kevin T. Lewis, *Director*

Timothy E. Crock, *Director*

Richard L. Leonard, *Director Emeritus*

PORTAGE COMMUNITY BANK – Officers

Richard J. Coe
Chief Executive Officer

Donald D. Herman
Vice President & Chief Financial Officer

Jill M. Conard
Vice President & Customer Relations Officer

Dominic Bellino
Vice President, Loan Operations

Thomas K. Cargo
Vice President, Commercial Lending

Lisa R. Ohler
Vice President, Commercial Lending

Robert S. Standardi
Vice President, Controller Assistant

Charles W. Bevan
IT Officer

Eric B. Decker
Commercial Lending Officer

Stormie L. Gross
Compliance Officer

Adriana M. Rucci-Kobus
Operations Manager

Christine L. Petroff
Cuyahoga Falls Office Manager

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

Deborah A. Bish
Vice President, Commercial Lending

Karen L. Duffy
Vice President, Kent Office Manager

Ina M. Sayre
Vice President, Main Office Manager

Tracy L. Cettomai
Vice President, Consumer Lending

Thomas M. Biltz
Loan Operations Officer

Pamela M. England
Marketing Officer

Maria A. Hydell
Portfolio Manager

Sara K. McCarty
Commercial Lending Officer

Marissa L. Platt
Mortgage Loan Underwriting Officer

Valarie L. Stephenson
Security Officer

DIVISIONAL RESPONSIBILITIES

Adam B. Rubin,
Vice President, Real Estate Division

Dennis P. Juvan,
Registered Representative, Portage Community Financial Services

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