PANDORA BANCSHARES, INC.
Pandora, Ohio

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011 and 2010

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March 1, 2012

Dear Shareholders and Friends:

Pandora Bancshares, Inc. is pleased to announce that 2011 has been another profitable year that adds value for our shareholders. Our leadership team is pleased with these results, especially given the economic challenges our nation continues to face. The lack of economic growth has applied negative pressure to our net interest margin; however the reduction in interest rates also spurred a flurry of residential real estate refinancing which contributed to an increase in our non-interest fee income. As of December 31, 2011, your bank has grown assets by $3.6 million, an increase of 2.8%, in the previous 12 months. Management is adamant that growth comes cautiously and credit quality remains high. This is evidenced by First National Bank's year end loan delinquency rate of .94%. This is compared to our peers at 2.31%.

First National Bank continues to be highly involved in our community and we take great pride in our civic partnerships. In recognition of outstanding efforts with its Young Entrepreneurs program, the Bank recently received Honorable Mention for the BKD Award for Excellence & Innovation. Co-sponsored by the Community Bankers Association of Ohio (CBAO) and BKD, one of the 10 largest CPA and advisory firms in the U.S., the annual award recognizes high-performing CBAO members that proactively ensure a healthy future for their bank and community. This year First National Bank also earned a five star rating from Bauer Financial in their most recent independent survey.

Despite the excellent results of your bank, we continue to experience earnings pressure due to our size. The increase in regulatory burden imposed gradually by the recent regulatory reform bill will be expensive. Our management team is excellent and has the ability to stretch and perform over a larger asset base. The majority of our potential improvements in earnings are directly correlated to size. Due to these realities, First National Bank has constructed a full service branch in Findlay on the Northwest corner of State Route 224 and County Road 300 just west of Interstate 75. Despite an unbelievably wet fall and undesirable construction conditions, the branch is on schedule to open its 1114 Trenton Ave. office in early March 2012. We are pleased to announce the hiring of Pat (Chic) Garlock as Branch Manager, Jeff Stratton as Commercial Lender and Kris Lowry as Mortgage Originator for the new office. Significant promotions in 2011 were Larry Hoffman to Senior Vice President, in addition to his Chief Financial Officer title, Nita Crawford to Vice President of Human Resources, and Doug Shaneyfelt to Vice President of Information Technology.

The directors, management and staff are extremely excited about the continued positive direction of First National Bank and the strategy to increase shareholder value. We thank you for your investment, your business and your future business. We look forward to seeing you at the Shareholder Meeting on April 28, 2012, at 10:00 a.m., at the Centre in Bluffton, OH.
Respectfully,

Todd A. Mason
President & CEO
The First National Bank

Charles Niswander
Chairman
Pandora Bancshares, Inc.

Donald R. Dreisbach
Chairman
The First National Bank

PANDORA BANCSHARES, INC.
FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Years ended December 31				
	2011	2010	2009	2008	2007
	(Dollars in thousands, except per share data)				
Statements of operations:					
Total interest income	$ 5,454	$ 5,770	$ 6,111	$ 6,665	$ 6,647
Total interest expense	1,076	1,304	1,861	2,560	2,955
Net interest income	4,378	4,466	4,250	4,105	3,692
Provision (credit) for loan losses	225	465	140	30	-
Net interest income after provision for loan losses	4,153	4,001	4,110	4,075	3,692
Total non-interest income	1,059	1,123	946	567	571
Total non-interest expenses	4,183	4,027	3,935	3,517	3,447
Income before federal income taxes	1,029	1,097	1,121	1,125	816
Federal income taxes	266	287	315	334	249
Net income	$ 763	$ 810	$ 806	$ 791	$ 567
Per share of common stock:					
Net income	$ 6.26	$ 6.62	$ 6.47	$ 6.11	$ 4.36
Dividends	1.80	1.80	1.60	1.40	1.25
Book value	97.22	90.48	87.16	81.48	73.79
Year-end balances					
Loans, net (A)	$ 74,137	$ 73,962	$ 76,863	$ 74,898	$ 65,948
Securities and restricted stock	40,794	38,468	28,897	26,966	27,405
Total assets	132,032	128,446	122,770	110,188	108,225
Deposits	111,199	110,111	104,425	91,158	91,458
Stockholders' equity	11,829	11,017	10,796	10,263	9,693
Average balances:					
Loans, net (A)	$ 73,643	$ 74,448	$ 74,636	$ 70,293	$ 61,525
Securities	38,942	31,046	27,204	28,327	26,469
Total assets	127,654	120,012	113,924	108,924	97,726
Deposits	109,085	102,077	95,969	90,364	83,385
Stockholders' equity	11,644	11,009	10,529	9,978	9,368
Selected ratios:					
Net yield on average interest-earning assets	3.72%	4.03%	4.05%	4.06%	4.07%
Return on average assets	0.60%	0.68%	0.71%	0.73%	0.58%
Return on average stockholders' equity	6.55%	7.36%	7.66%	7.93%	6.05%
Allowance for loan losses as a percentage of year-end loans	1.65%	1.60%	1.58%	1.43%	1.53%
Year-end stockholders' equity as a percentage of year-end assets	8.96%	8.58%	8.79%	9.31%	8.96%

(A) Includes loans held for sale

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Board of Directors
Pandora Bancshares, Inc.
Pandora, Ohio

We have audited the accompanying consolidated balance sheets of Pandora Bancshares, Inc. and subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pandora Bancshares, Inc. and subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Toledo, Ohio
February 27, 2012

PANDORA BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010

ASSETS	2011	2010
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 4,105,048	$ 3,213,249
Federal funds sold	5,142,000	5,467,000
Total cash and cash equivalents	9,247,048	8,680,249
Securities, available-for-sale	39,815,306	37,488,465
Restricted stock	979,050	979,050
Loans held for sale	87,000	726,749
Loans, net of allowance for loan losses of $1,244,358 in 2011 and $1,193,738 in 2010	74,049,592	73,235,672
Premises and equipment, net	3,316,073	2,541,932
Other real estate owned	29,233	82,829
Accrued interest receivable	674,393	735,698
Cash surrender value of life insurance	2,957,929	2,855,506
Other assets	876,727	1,119,708
TOTAL ASSETS	$ 132,032,351	$ 128,445,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 16,227,789	$ 14,051,471
Interest-bearing	94,970,953	96,059,213
Total deposits	111,198,742	110,110,684
Federal Home Loan Bank borrowings	7,564,028	6,137,240
Other liabilities	1,440,327	1,181,244
Total liabilities	120,203,097	117,429,168
STOCKHOLDERS' EQUITY		
Common stock, $5.00 par value. Authorized 500,000 shares; issued 159,388 shares	796,942	796,942
Additional paid-in capital	2,559,415	2,559,415
Retained earnings	10,248,267	9,707,023
Accumulated other comprehensive income	566,945	289,316
Treasury stock, at cost – 37,718 shares in 2011 and 37,607 shares in 2010	(2,342,315)	(2,336,006)
Total stockholders' equity	11,829,254	11,016,690
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 132,032,351	$ 128,445,858

The accompanying notes are an integral part of the consolidated financial statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2011 and 2010

	2011	**2010**
INTEREST INCOME		
Loans – including fees	$ 4,629,629	$ 4,863,941
Securities:		
Taxable	632,235	728,979
Tax-exempt	140,809	125,837
Dividends on restricted stock	42,373	41,378
Other	8,994	9,399
Total interest income	5,454,040	5,769,534
INTEREST EXPENSE		
Deposits	868,899	1,092,715
Other borrowings	206,774	211,225
Total interest expense	1,075,673	1,303,940
Net interest income	4,378,367	4,465,594
PROVISION FOR LOAN LOSSES	225,000	465,000
Net interest income after provision for loan losses	4,153,367	4,000,594
NON-INTEREST INCOME		
Service charges:		
Deposit accounts	239,713	244,797
Other	26,651	26,427
Gain on sale of securities	62,826	6,652
Gain on sale of loans	475,376	443,210
Increase in cash surrender value of life insurance	96,475	119,408
Other, net	157,581	282,718
Total non-interest income	1,058,622	1,123,212
NON-INTEREST EXPENSES		
Salaries, wages and employee benefits	2,107,409	2,076,895
Occupancy and equipment	330,624	348,967
Data processing	519,442	428,392
Federal deposit insurance assessment	123,572	160,696
Professional and director fees	281,526	229,456
Advertising and Marketing	146,334	68,602
Franchise tax	133,216	126,400
Other operating expenses	541,053	587,315
Total non-interest expenses	4,183,176	4,026,723
Income before income taxes	1,028,813	1,097,083
PROVISION FOR INCOME TAXES	265,900	286,800
NET INCOME	$ 762,913	$ 810,283
Net income per share (basic and diluted)	$ 6.26	$ 6.62

The accompanying notes are an integral part of the consolidated financial statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2011 and 2010

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
BALANCE AT DECEMBER 31, 2009	$ 796,942	$ 2,559,415	$ 9,117,427	$ 539,908	$(2,217,909)	$ 10,795,783
Comprehensive income:						
Net income	-	-	810,283	-	-	810,283
Change in unrealized gain on available-for-sale securities, net of reclassification adjustments and income taxes	-	-	-	(250,592)	-	(250,592)
Total comprehensive income						559,691
Purchase of 2,356 treasury shares	-	-	-	-	(133,630)	(133,630)
Grant of 100 shares to officer					5,900	5,900
Sale of 155 treasury shares – employee stock purchase plan	-	-	(1,507)	-	9,633	8,126
Dividends declared – $1.80 per share	-	-	(219,180)	-	-	(219,180)
BALANCE AT DECEMBER 31, 2010	796,942	2,559,415	9,707,023	289,316	(2,336,006)	11,016,690
Comprehensive income:						
Net income	-	-	762,913	-	-	762,913
Change in unrealized gain on available-for-sale securities, net of reclassification adjustments and income taxes	-	-	-	277,629	-	277,629
Total comprehensive income						1,040,542
Purchase of 498 treasury shares	-	-	-	-	(29,880)	(29,880)
Grant of 160 shares to officers					9,467	9,467
Sale of 227 treasury shares – employee stock purchase plan	-	-	(2,663)	-	14,104	11,441
Dividends declared – $1.80 per share	-	-	(219,006)	-	-	(219,006)
BALANCE AT DECEMBER 31, 2011	$ 796,942	$ 2,559,415	$ 10,248,267	$ 566,945	$(2,342,315)	$ 11,829,254

The accompanying notes are an integral part of the consolidated financial statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 762,913	$ 810,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	314,209	252,424
Provision for loan losses	225,000	465,000
Securities premium amortization, net of discount accretion	347,076	253,464
Deferred federal income taxes	1,980	(95,907)
Grant of stock to officer	9,467	5,900
Increase in cash surrender value of life insurance	(96,475)	(119,408)
Gain on sale of securities	(62,826)	(6,652)
Gain on sale of loans	(475,376)	(443,210)
Loss (gain) on sale of other real estate owned	16,561	(49,175)
Effects of changes in operating assets and liabilities:		
Loans held for sale	639,749	(182,199)
Accrued interest receivable	61,305	197,579
Other assets	245,396	132,561
Other liabilities	169,257	59,418
Net cash provided by operating activities	2,158,236	1,280,078
CASH FLOWS FROM INVESTING ACTIVITIES		
Available-for-sale securities:		
Sales	4,201,623	1,075,732
Maturities, prepayments and calls	14,421,439	14,546,840
Purchases	(20,813,504)	(25,810,040)
Purchase of restricted stock	-	(10,000)
Net decrease (increase) in loans	(809,667)	2,613,446
Proceeds from sale of other real estate owned	53,703	632,112
Premiums paid on life insurance policies	(5,948)	(5,948)
Additions to premises and equipment	(916,310)	(707,823)
Additions to other real estate owned	-	(35,000)
Net cash used in investing activities	(3,868,664)	(7,700,681)

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 1,088,058	$ 5,685,877
Federal Home Loan Bank borrowings	1,500,000	-
Principal payments on Federal Home Loan Bank borrowings	(73,212)	(141,509)
Proceeds from sale of treasury shares	11,441	8,126
Purchase of treasury shares	(29,880)	(133,630)
Payment of dividends	(219,180)	(198,126)
Net cash provided by financing activities	2,277,227	5,220,738
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	566,799	(1,199,865)
CASH AND CASH EQUIVALENTS		
At beginning of year	8,680,249	9,880,114
At end of year	$ 9,247,048	$ 8,680,249
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for:		
Interest	$ 1,078,966	$ 1,320,130
Income taxes	$ 170,000	$ 462,000
Non-cash operating activity:		
Change in deferred income taxes on net unrealized gains on available-for-sale securities	$ (143,020)	$ 129,093
Non-cash investing activity:		
Change in net unrealized gains on available-for-sale securities	$ 420,649	$ (379,685)
Non-cash operating and investing activity:		
Transfer of loans to other real estate owned	$ 16,668	$ 226,160

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pandora Bancshares, Inc. (the "Corporation") was incorporated in 1986 in the state of Ohio as a single-bank holding company for First National Bank of Pandora (the "Bank"). The Corporation, through its wholly-owned subsidiary, the Bank, operates in one industry segment, the commercial banking industry. The Bank, organized in 1919 as a national chartered bank, is headquartered in Pandora, Ohio, with branch offices in Bluffton and Findlay, Ohio.

The primary source of revenue of the Bank is providing loans to customers primarily located in Northwestern and West Central Ohio. Such customers are predominately small and middle-market businesses and individuals.

Significant accounting policies followed by the Corporation are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The most significant estimates susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of servicing assets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold which mature overnight or within four days, and bank certificates of deposit with original maturities of 90 days or less.

Restrictions on Cash

The Bank was required to maintain $381,000 and $315,000, respectively, of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2011 and 2010.

Securities and Restricted Stock

Securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses, net of applicable income taxes, excluded from income and reported as accumulated other comprehensive income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities and Restricted Stock, Continued

The cost of available-for-sale debt securities is adjusted for amortization of premiums to call date and accretion of discounts to date of maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of securities below their cost that are deemed to be other than temporary are reflected in income as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent to sell the securities and the more likely than not requirement for the Corporation will be required to sell the securities prior to recovery, (2) the length of time and the extent to which the fair value has been less than cost, and (3) the financial condition and near-term proposals of the issuer. Gains and losses on the sale of securities are recorded on the trade date, using the specific identification method, and are included in non-interest income.

Investments in restricted stock, principally consisting of Federal Home Loan Bank of Cincinnati and Federal Reserve Bank stock, are classified as restricted securities, carried at cost, and evaluated for impairment.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are stated at their outstanding principal amount adjusted for charge-offs and the allowance for loan losses. Interest is accrued as earned based upon the daily outstanding principal balance. Loan origination fees and certain direct obligation costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest is generally discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans placed on nonaccrual or charged-off is reversed against interest income. Interest on these 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 assured.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of 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 as it requires estimates that are susceptible to significant revision as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in estimates will occur in the near term and that such changes could be material to the amounts reported in the Corporation's consolidated financial statements.

The allowance consists of specific, general and unallocated components. The specific component relates to impaired loans when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers classified loans (substandard or special mention) without specific reserves, as well as non-classified loans, and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when 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 construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less expected costs to sell and any loan balance in excess of such value is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and fair value adjustments are included in other operating expenses.

Servicing

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Bank. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Servicing assets are recognized as a separate asset when acquired through allocation of the value of servicing rights retained on sale of mortgage loans sold. Capitalized servicing rights are reported in other assets and amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost using predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than amortized cost. Servicing fee income is recorded for fees earned for servicing loans, based on a contractual percentage of the outstanding principal, and is reported as other operating income.

Servicing fee income is recorded for fees earned for servicing loans and is included in other operating income, net of amortization of mortgage servicing rights.

Premises and Equipment

Premises and equipment is stated at cost, less accumulated depreciation. Upon the sale or disposition of the assets, the difference between the depreciated cost and proceeds is charged or credited to income. Depreciation is determined based on the estimated useful lives of the individual assets (typically 20 to 40 years for buildings and 3 to 10 years for equipment) and is computed using the straight-line method.

Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Supplemental Retirement and Postretirement Benefits

Annual provisions are made for the estimated liability for accumulated supplemental retirement benefits under agreements with certain current and former employees of the Bank. The accrual for postretirement benefits is determined based on estimated future payments, over the life expectancy of employees receiving such benefits, discounted at 6.0%.

Advertising Costs

Advertising costs are expensed as incurred.

Federal Income Taxes

The Corporation and Bank are currently subject only to federal income taxes. Any penalties resulting from the filing of its income tax returns are included in the provision for income taxes; any interest is included in interest expense.

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are recognized only if it is more likely than not that a tax position will be realized or sustained upon examination by the relevant taxing authority. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns.

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 Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets, Continued

The transfer of a participating interest in a financial asset must have all of the following characteristics: (1) from the date of transfer, it must represent a proportionate ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except cash flows allocated as compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or change the entire financial asset unless all participating interest holders agree to do so.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

Rate Lock Commitments

Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale are accounted for as derivative instruments. The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are to be recorded at fair value as derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. At December 31, 2011 and 2010, derivative assets and liabilities relating to rate lock commitments were not material to the consolidated financial statements.

Per Share Data

Basic net income per common share represents net income divided by weighted average number of common shares outstanding during the year. Diluted net income per common share includes any dilutive effect of additional potential common shares issuable under stock options. The weighted average number of shares used in the computation of basic and diluted net income per share was 121,904 in 2011 and 122,356 in 2010.

Subsequent Events

Management evaluated subsequent events through February 27, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to February 27, 2012 that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011 but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2011.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2010-20 "*Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses"* which increases disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures provide additional information about the nature of credit risk inherent in the Company's loans, how credit risk is analyzed and assessed, and the reasons for the change in the allowance for loan losses. The expanded disclosure requirements of ASU 2010-20 are effective for the Company's December 31, 2011 consolidated financial statements and are disclosed in Note 4.

In April 2011, FASB issued ASU No. 2011-02 *"Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring."* ASU 2011-02 clarifies that a loan modification or restructuring constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would otherwise not consider. In evaluating whether a modification or restructuring constitutes a TDR, a creditor must separately conclude that both of the following conditions exist: the modification constitutes a concession; and, the borrower is experiencing financial difficulties. ASU 2011-02 is effective for non-public entities for annual periods ending on or after December 15, 2012, and early adoption is permitted. The Company has not determined what impact, if any, the adoption of ASU 2011-02 will have on its consolidated financial statements.

In May 2011, FASB issued ASU No. 2011-04 "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs".* The amendments in ASU 2011-04 generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in ASU 2011-04 are to be applied prospectively and are required for annual periods beginning after December 15, 2011. The Company has not yet determined what, if any, impact the amendments of ASU 2011-04 will have on its consolidated financial statements.

In June 2011, FASB issued ASU No. 2011-05 *"Amendments to Topic 220, Comprehensive Income".* Under the amendments in ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Either option requires the entity to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The amendments in ASU 2011-05 are to be applied retrospectively. The amendments will be effective for the Company's December 31, 2012 consolidated financial statements. Early adoption is permitted and the amendments do not require any transitional disclosures. The Company does not anticipate early adoption of ASU 2011-05.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures*, which provides amendments to ASC 820-10 and is intended to improve disclosure requirements related to fair value measurements. ASU 2010-06 clarifies that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities measured at fair value. A class is often a subset of assets or liabilities within a line item in the statement of financial position. Reporting entities should also provide disclosures about the valuation techniques and inputs used to measure fair value for fair value measurements falling within Level 2 or 3. The new disclosures and clarifications of existing disclosures were effective for reporting periods beginning after December 15, 2009, except for the purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Information on fair value measurements is disclosed in Note 15.

NOTE 3 - SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, at December 31, 2011 and 2010, are as follows:

2011	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Available-for-sale securities:				
U.S. Treasury bonds	$ 2,062,221	$ 49,653	$ -	$ 2,111,874
U.S. Government and federal agency obligations	21,133,559	225,616	1,290	21,357,885
Obligations of state and political subdivisions	8,795,655	288,082	-	9,083,737
Mortgage-backed	6,229,864	297,478	-	6,527,342
Bank certificates of deposit	735,000	-	532	734,468
Total available-for-sale securities	$ 38,956,299	$ 860,829	$ 1,822	$ 39,815,306
2010				
Available-for-sale securities:				
U.S. Treasury bonds	$ 2,059,208	$ 25,987	$ -	$ 2,085,195
U.S. Government and federal agency obligations	21,149,044	134,828	117,890	21,165,982
Obligations of state and political subdivisions	8,352,296	116,918	38,133	8,431,081
Mortgage-backed	4,754,559	316,648	-	5,071,207
Bank certificates of deposit	735,000	-	-	735,000
Total available-for-sale securities	$ 37,050,107	$ 594,381	$ 156,023	$ 37,488,465

NOTE 3 - SECURITIES (CONTINUED)

The amortized cost and fair value of securities at December 31, 2011, by contractual maturity, are shown below. Actual maturities may 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 in one year or less	$ 2,506,443	$ 2,522,210
Due after one year through five years	25,927,325	26,387,274
Due after five years through ten years	4,292,667	4,378,480
Total	32,726,435	33,287,964
Mortgage-backed securities	6,229,864	6,527,342
Total available-for-sale securities	$ 38,956,299	$ 39,815,306

At December 31, 2011 and 2010, securities with an amortized cost of $17,757,444 and $19,694,219, respectively, and a fair value of $18,068,784 and $20,101,620, respectively, were pledged to secure borrowing public deposits, borrowings, and for other purposes required or permitted by law.

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011 and 2010:

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2011						
U.S. Government and federal agency obligations	$ 1,290	$ 2,412,752	$ -	$ -	$ 1,290	$ 2,412,752
Certificate of deposit	532	244,468	-	-	532	244,468
Total	$ 1,822	$ 2,657,220	$ -	$ -	$ 1,822	$ 2,657,220

NOTE 3 - SECURITIES (CONTINUED)

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2010						
U.S. Government and federal agency obligations	$ 117,890	$ 10,730,599	$ -	$ -	$ 117,890	$ 10,730,599
Obligations of state and political subdivisions	38,133	2,314,468	-	-	38,133	2,314,468
Total	$ 156,023	$ 13,045,067	$ -	$ -	$ 156,023	$ 13,045,067

There were three securities in an unrealized loss position at December 31, 2011. These securities impairments, which existed less than twelve months, are considered temporary and were the result of customary and expected fluctuations in the bond market.

Gross realized gains (there were no gross realized losses) from sales of securities amounted to $62,826 in 2011, with the income tax provision applicable to such gains amounting to $21,361. Gross realized gains (there were no gross realized losses) from sales of securities amounted to $6,652 in 2010, with the income tax provision applicable to such gains amounting to $2,262.

Restricted stock includes Federal Home Loan Bank of Cincinnati stock of $853,000 at December 31, 2011 and 2010, and Federal Reserve Bank stock of $85,050 at December 31, 2011 and 2010.

NOTE 4 - LOANS

A summary of the balances of loans at December 31, 2011 and 2010 consists of the following:

	2011	2010
Mortgage loans on real estate:		
Residential 1 – 4 family	$ 10,687,113	$ 11,086,337
Commercial	29,653,359	27,474,358
Agriculture	4,843,442	4,942,835
Construction	1,019,619	671,056
Second mortgage	216,190	246,004
Equity lines of credit	8,491,651	8,267,633
Total mortgage loans on real estate	54,911,374	52,688,223
Commercial	12,428,344	12,089,392
Agriculture	5,638,054	7,190,800
Consumer installment	2,316,178	2,460,995
Total loans	75,293,950	74,429,410
Less allowance for loan losses	1,244,358	1,193,738
Loans, net	$ 74,049,592	$ 73,235,672
Allowance for loan losses as a percent of total loans	1.65%	1.60%

NOTE 4 – LOANS (CONTINUED)

Most of the Bank's lending activities are with customers located in Northwestern and West Central Ohio. As of December 31, 2011 and 2010 the Bank's loans from borrowers in the agriculture industry represent the single largest industry and represented 15% and 16%, respectively, of the Bank's loan portfolio. Agriculture loans are generally secured by property, equipment, and crop income. Repayment is expected from cash flow from the harvest and sale of crops. Agriculture customers are subject to the risks of weather and market prices of crops which could have an impact on the ability of these customers to repay their loans. Credit losses arising from the Bank's lending experience in the agriculture industry compare favorably with the Bank's loss experience on their loan portfolio as a whole. Credit evaluation of agriculture lending is based on an evaluation of cash flow coverage of principal and interest payments and the adequacy of collateral received.

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are loan customers of the Bank. Such loans are made in the ordinary course of business in accordance with the normal lending policies of the Bank, including the interest rate charged and collateralization, and do not represent more than a normal collection risk. The following is a summary of activity during 2011 and 2010 for such loans:

	2011	2010
Beginning of year	$ 69,371	$ 120,451
Additions	47,526	-
Repayments	(43,418)	(51,080)
End of year	$ 73,479	$ 69,371

Additions and repayments include loan renewals, as well as net borrowings and repayments under revolving lines-of-credit.

A summary of the allowance for loan losses consists of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Balance at beginning of year	$ 1,193,738	$ 1,223,073
Provision for loan losses	225,000	465,000
Loans charged-off	(203,546)	(537,293)
Recoveries of loans previously charged-off	29,166	42,958
Balance at end of year	$ 1,244,358	$ 1,193,738

In evaluating the allowance for loan losses, loans are generally analyzed based on how they are categorized for financial reporting purposes.

NOTE 4 – LOANS (CONTINUED)

The following is a summary of activity in the allowance for loan losses, as well as the Bank's recorded investment in loans, by portfolio segment and based on impairment method, as of and for the year ended December 31, 2011:

			Real estate mortgage			
	Commercial	**Consumer**	**Commercial**	**Residential**	**Home equity**	**Total**
Allowance for Loan Losses:						
Balance at January 1, 2011	$ 258,119	$ 28,880	$ 523,614	$ 282,944	$ 100,181	$ 1,193,738
Provision (credit) for loan losses	4,879	(3,681)	154,557	47,684	21,561	225,000
Loans charged off	-	-	(113,785)	(89,761)	-	(203,546)
Recoveries	-	-	20,251	5,550	3,365	29,166
Balance at December 31, 2011	262,998	25,199	584,637	246,417	125,107	1,244,358
Ending balance individually evaluated for impairment	-	-	281,140	16,000	-	297,140
Ending balance collectively evaluated for impairment	$ 262,998	$ 25,199	$ 303,497	$ 230,417	$ 125,107	$ 947,218
Loans:						
Ending balance	$ 18,066,398	$ 2,316,178	$ 34,496,801	$ 11,922,922	$ 8,491,651	$ 75,293,950
Ending balance individually evaluated for impairment	-	-	1,263,688	106,430	-	1,370,118
Ending balance collectively evaluated for impairment	$ 18,066,398	$ 2,316,178	$ 33,233,113	$ 11,816,492	$ 8,491,651	$ 73,923,832

NOTE 4 - LOANS (CONTINUED)

Construction loans are underwritten utilizing independent appraisals, sensitivity analysis of absorption, vacancy and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. The Bank may require guarantees on these loans. The Bank's construction loans are secured primarily by properties located in its primary market area.

The Bank originates 1 – 4 family real estate and consumer loans utilizing credit reports to supplement the underwriting process. The Bank's manual underwriting standards for 1 – 4 family loans are generally in accordance with FHLMC and FNMA manual underwriting guidelines. Properties securing 1 – 4 family real estate loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and have been approved by the Board of Directors. The loan-to-value ratios normally do not exceed 80% without credit enhancements such as mortgage insurance. The Bank will lend up to 100% of the lesser of the appraised value or purchase price for conventional 1 – 4 family real estate loans, provided private mortgage insurance is obtained. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. To monitor and manage loan risk, policies and procedures are developed and modified, as needed by management. This activity, coupled with smaller loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis. The Bank's 1 – 4 family real estate loans are secured primarily by properties located in its primary market area.

Commercial and agricultural real estate loans are subject to underwriting standards and processes similar to commercial and agricultural operating loans, in addition to those unique to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial and agricultural real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loan to value is generally 75% of the cost or value of the assets. Appraisals on properties securing these loans are generally performed by fee appraisers approved by the Board of Directors. Because payments on commercial and agricultural real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial and agricultural real estate loans based on collateral and risk rating criteria. The Bank may require guarantees on these loans. The Bank's commercial and agricultural real estate loans are secured primarily by properties located in its primary market area.

NOTE 4 - LOANS (CONTINUED)

Commercial and agricultural operating loans are underwritten based on the Bank's examination of current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. This underwriting includes the evaluation of cash flows of the borrower, underlying collateral, if applicable, and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans may fluctuate in value after the initial evaluation. A first priority lien on the general assets of the business normally secures these types of loans. Loan to value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and hail insurance is required for most agricultural borrowers. Loans are generally guaranteed by the principal(s). The Bank's commercial and agricultural operating lending is principally in its primary market area.

The Bank has an internal credit analyst who reviews and validates credit risk on a periodic basis, as well as an external loan review performed annually or semi-annually. Results of the credit analyst and external loan reviews are presented to management and the Audit Committee. The credit analyst and loan review processes compliment and reinforce the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank's policies and procedures.

The following is a summary of information pertaining to impaired loans at December 31, 2011 and 2010:

	2011	2010
Impaired loans with a valuation allowance	$ 1,151,695	$ 1,086,831
Impaired loans with no valuation allowance	218,423	528,633
Total impaired loans	$ 1,370,118	$ 1,615,464

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2011:

	Unpaid principal balance	Allowance for loan losses allocated
With no related allowance recorded:		
Real estate:		
Commercial	$ 153,686	$ -
Residential	64,737	-
With an allowance recorded:		
Real estate:		
Commercial	1,110,002	281,140
Residential	41,693	16,000
Total	$ 1,370,118	$ 297,140

NOTE 4 - LOANS (CONTINUED)

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2011 and 2010.

The following is a summary of information for the years ended December 31, 2011 and 2010 pertaining to impaired loans:

	2011	2010
Average investment in impaired loans	$ 1,377,959	$ 1,512,700
Interest income recognized on impaired loans	67,199	52,505
Interest income recognized on a cash basis on impaired loans	67,199	52,460

The following is a summary of the activity in the allowance for loan losses of impaired loans, which is a part of the Bank's overall allowance for loan losses for the years ended December 31, 2011 and 2010:

	2011	2010
Balance at beginning of year	$ 198,724	$ 151,607
Provision charged to operations	223,166	377,196
Loans charged-off	(124,750)	(330,079)
Balance at end of year	$ 297,140	$ 198,724

Impaired loans include nonperforming loans as well as loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions may include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Included in impaired loans at December 31, 2011 are $1,096,948 of commercial real estate loans that have been modified in troubled debt restructurings. The Corporation has allocated $247,137 of specific reserves to customers whose loan terms have been modified as of December 31, 2011. The Corporation intends to lend no additional amounts to these customers.

Loans on non-accrual of interest amounted to $1,370,118 and $711,276 at December 31, 2011 and 2010 respectively. Loans past due more than 90 days and still accruing interest amounted to $106,782 and $278,447 at December 31, 2011 and 2010, respectively.

NOTE 4 - LOANS (CONTINUED)

The following table presents the aging of the recorded investment in past due and nonaccrual loans for the year ended December 31, 2011 by class of loans:

	Loans past due accruing interest						
	30 – 59 days	60 – 89 days	Over 90 days	Total	Loans on non-accrual	Loans not past due or on non-accrual	Total
Commercial	$ 119,664	$ -	$ -	$ 119,664	$ -	$ 17,946,734	$ 18,066,398
Real estate:							
Commercial	-	-	-	-	1,263,688	33,233,113	34,496,801
Home Equity	22,784	15,000	12,963	50,747	-	8,440,904	8,491,651
Residential	159,561	18,932	92,118	270,611	106,430	11,545,881	11,922,922
Consumer	17,024	305	1,701	19,030	-	2,297,148	2,316,178
Total	$ 319,033	$ 34,237	$ 106,782	$ 460,052	$ 1,370,118	$ 73,463,780	$ 75,293,950

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans from the commercial loan department. This analysis is performed at least annually. The Company uses the following definitions for risk ratings:

- **Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

- **Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- **Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

NOTE 4 - LOANS (CONTINUED)

As of December 31, 2011, based on the most recent analysis performed, the risk category of loans by class of loans was as follows:

	Pass	Special mention	Substandard	Doubtful	Total
Commercial	$ 17,106,460	$ 718,330	$ 241,608	$ -	$ 18,066,398
Real estate:					
Commercial	31,628,185	779,344	2,089,272	-	34,496,801
Home Equity	8,355,688	-	135,963	-	8,491,651
Residential	11,054,848	-	868,074	-	11,922,922
Consumer	2,316,178	-	-	-	2,316,178
Total	$ 70,461,359	$ 1,497,674	$ 3,334,917	$ -	$ 75,293,950

NOTE 5 - PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment consists of the following at December 31, 2011 and 2010:

	2011	2010
Land	$ 1,042,023	$ 1,042,023
Buildings and building improvements	3,239,629	3,173,852
Furniture, fixtures, and equipment	1,100,485	1,060,412
Construction in progress	797,136	-
	6,179,273	5,276,287
Less accumulated depreciation	2,863,200	2,734,355
Net premises and equipment	$ 3,316,073	$ 2,541,932

Depreciation expense for the years ended December 31, 2011 and 2010 amounted to $142,169 and $154,388, respectively.

Through December 31, 2011, the Bank had incurred costs of $1,459,285 relating to a new branch in Findlay, including $662,149 for land, as well as certain deposits from office furnishings and equipment. The Bank's remaining commitment for completion of the branch is approximately $532,000 at December 31, 2011. The new branch is expected to be open Spring of 2012.

NOTE 6 - SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated $66,315,000 and $56,268,000 at December 31, 2011 and 2010 respectively.

The balance of capitalized servicing rights included in other assets amounted to $485,189 and $427,774 at December 31, 2011 and 2010, respectively.

During the years ended December 31, 2011 and 2010 the Bank capitalized $229,455 and $221,205, respectively, of servicing rights and such amounts are included in gain on sale of loans. Amortization of mortgage servicing rights amounted to $172,040 in 2011 and $98,036 in 2010.

NOTE 7 - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2011 and 2010 approximated $17,406,000 and $21,932,000, respectively. Interest expense on these deposits amounted to $237,426 in 2011 and $287,361 in 2010.

At December 31, 2011, the scheduled maturities of time deposits are as follows:

2012	$ 27,021,096
2013	10,385,552
2014	4,491,965
2015	2,374,836
2016	4,472,723
Thereafter	83,821
Total	$ 48,829,993

NOTE 8 - FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank borrowings consist of the following at December 31, 2011 and 2010:

	2011	2010
Secured note, with interest at 5.04%, due August 2012	$ 500,000	$ 500,000
Secured note, with interest at 3.84%, due November 2012	2,000,000	2,000,000
Secured note, with interest at 2.70%, due October 2013	2,500,000	2,500,000
Secured note, with interest at .92%, due October 2014	1,500,000	-
Secured note, with interest at 2.82%, due January 2015	1,000,000	1,000,000
Advances secured by individual residential mortgages under blanket agreement	64,028	137,240
Total Federal Home Loan Bank borrowings	$ 7,564,028	$ 6,137,240

NOTE 8 - FEDERAL HOME LOAN BANK BORROWINGS (CONTINUED)

Interest on advances outstanding at December 31, 2011 secured by individual mortgages under blanket agreement ranged from 5.95 % to 7.00 %, with interest payable monthly and maturities ranging through July 2018. The weighted average interest rate of Federal Home Loan Bank borrowings outstanding at December 31, 2011 and 2010 was 2.85% and 3.37%, respectively. Borrowings are secured by mortgage loans approximating $32,205,000 as of December 31, 2011. Advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank.

Future maturities of Federal Home Loan Bank borrowings at December 31, 2011, are as follows:

2012	$ 2,523,776
2013	2,518,123
2014	1,510,803
2015	1,003,829
2016	3,327
Thereafter	4,170
Total	$ 7,564,028

NOTE 9 - OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the years ended December 31, 2011 and 2010:

	2011	2010
Unrealized holding gains (losses) on available-for-sale securities	$ 483,475	$(373,033)
Reclassification adjustments for net securities gains realized in income	(62,826)	(6,652)
	420,649	(379,685)
Tax effect	(143,020)	129,093
Net-of-tax amount	$ 277,629	$(250,592)

NOTE 10 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2011 and 2010 consist of the following:

	2011	2010
Current provision	$ 263,920	$ 382,707
Deferred provision (credit)	1,980	(95,907)
Total provision for income taxes	$ 265,900	$ 286,800

NOTE 10 - INCOME TAXES (CONTINUED)

The income tax provision attributable to income from operations differed from the amounts computed by applying the U.S. federal income tax rate of 34% to income before income taxes as a result of the following:

	2011	2010
Expected tax using statutory tax rate of 34%	$ 349,800	$ 373,000
Increase (decrease) resulting from:		
Tax-exempt interest income, net of interest expense associated with cost to carry	(53,300)	(52,500)
Tax-exempt income on life insurance policies, net of premiums paid	(32,800)	(40,600)
Other, net	2,200	6,900
Total provision for income taxes	$ 265,900	$ 286,800

The deferred income tax provision (credit) of $1,980 in 2011 and ($95,907) in 2010 resulted from the tax effects of temporary differences. There was no impact for changes in tax laws and rates or changes in the valuation allowance for deferred tax assets.

The components of deferred tax assets and liabilities consist of the following at December 31, 2011 and 2010:

	2011	2010
Deferred tax assets:		
Allowance for loan losses	$ 347,100	$ 329,900
Accrued employee benefits	221,900	204,200
Total deferred tax assets	569,000	534,100
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	292,062	149,042
Federal Home Loan Bank stock dividends	146,900	146,900
Depreciation	25,200	25,900
Mortgage servicing rights	165,000	145,400
Other	29,838	11,858
Total deferred tax liabilities	659,000	479,100
Net deferred tax assets (liabilities)	$ (90,000)	$ 55,000

Net deferred tax assets are included in other assets and net deferred tax liabilities are included in other liabilities in the accompanying consolidated balance sheets.

The federal income tax returns of the Corporation that remain open and subject to examination at December 31, 2011 are years 2008 – 2011. Management does not believe the Corporation has any significant uncertain tax positions at December 31, 2011.

Management believes it is more likely than not that the benefit of deferred tax assets will be realized. Therefore, no valuation allowance for deferred tax assets is deemed necessary as of December 31, 2011 and 2010.

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Corporation sponsors a defined contribution 401(k) plan for the benefit of eligible employees. Substantially all employees participate in the plan. Employer contributions are discretionary as determined by the Board of Directors and may be basic, optional, and/or matching in nature. Basic and optional contributions are allocated to participants based on the relative compensation of each participant. Matching contributions are determined as a percentage of participating employee contributions. Participants are immediately vested in employer basic and matching contributions. Employer optional contributions are subject to a six-year vesting schedule. Employer matching contributions amounted to $48,294 in 2011 and $47,811 in 2010. There were no basic or optional employer contributions made during 2011 or 2010.

Under an employee stock purchase plan, eligible employees may defer a portion of their compensation and use the proceeds to purchase stock of the Corporation at a discount determined by the Board of Directors as stipulated in the plan. The Corporation sold from treasury 227 shares of stock in 2011 and 155 shares in 2010 under the plan.

The Bank has entered into various agreements with certain directors to provide for supplemental retirement benefits under deferred board of director fees, as specified by the individuals. The agreements provide for monthly retirement benefits based on the value of the individual's deferred compensation account. As of December 31, 2011 and 2010, the Bank's liability for such deferred compensation payments amounted to $468,743 and $430,398, respectively. The Bank has also entered into agreements with certain officers and directors to provide for supplemental retirement benefits. The Bank has provided a liability for estimated accumulated supplemental retirement benefits of $102,837 at December 31, 2011 and $88,924 at December 31, 2010. The Bank has established a non-qualified deferred compensation plan for four senior officers which provides for deferred compensation benefits in the event the individuals attain certain annual goals established in the plan. The Bank has provided a liability for accumulated deferred compensation benefits under the plan amounting to $54,193 and $39,936, respectively, as of December 31, 2011 and 2010.

The Bank has purchased life insurance policies on such individuals, as well as certain previously terminated participants, to assist in funding future deferred compensation obligations. The aggregate cash surrender value of life insurance policies amounted to $2,957,929 and $2,855,506 at December 31, 2011 and 2010, respectively.

The Bank has agreed to provide certain postretirement benefits to a group of former employees. While the Bank is not contractually obligated to provide such benefits and may alter or terminate benefits at any time, a liability has been provided in the accompanying consolidated balance sheets representing an estimate of future payments to be made to the group, based on life expectancies, discounted at 6.0%. The Bank's accrual for postretirement benefits amounted to $26,975 and $41,284 at December 31, 2011 and 2010, respectively.

NOTE 12 - STOCK OPTIONS

Under the Corporation's Stock Option Plan, the Corporation may grant options to its directors, officers, and employees for up to 29,551 shares of common stock, 19,819 of which have been granted and exercised as of December 31, 2011. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of each option equals the market price of the Corporation's stock on the date of grant, and an option's maximum term is 10 years.

Outstanding stock option information as of December 31, 2011 and 2010 is as follows:

	2011		2010	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding at end of year	7,400	$ 60.99	7,400	$ 60.99
Options exercisable at end of year	7,100	$ 61.01	7,000	$ 61.01

Additional information pertaining to options outstanding at December 31, 2011 is as follows:

	Outstanding		Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price
$ 57.50	4,000	3.2	4,000	$ 57.50
$ 60.50	1,000	2.2	700	$ 60.50
$ 67.00	2,400	1.4	2,400	$ 67.00
Total	7,400	2.5	7,100	$ 61.01

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

	December 31, contract amount	
	2011	2010
Commitments to extend credit, including unfunded commitments under lines of credit	$ 11,579,000	$ 11,459,000
Commercial and standby letters of credit	465,000	470,000

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary. The amount and nature of the collateral obtained are based on the Bank's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, and equipment, and real estate.

NOTE 14 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2011 and 2010, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from federal banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 14 - REGULATORY MATTERS (CONTINUED)

The actual capital amounts and ratios of the Bank as of December 31, 2011 and 2010 are presented in the following table:

	Actual		Minimum capital requirement		Minimum to be "well capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(thousands of dollars)			
As of December 31, 2011						
Total Capital (to Risk-Weighted Assets)	$ 12,411	14.2%	$ 7,018	≥ 8.0%	$ 8,773	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 11,313	12.9%	$ 3,509	≥ 4.0%	$ 5,264	≥ 6.0%
Tier I Capital (to Average Assets)	$ 11,313	8.6%	$ 5,249	≥ 4.0%	$ 6,561	≥ 5.0%
As of December 31, 2010						
Total Capital (to Risk-Weighted Assets)	$ 11,636	13.6%	$ 6,871	≥ 8.0%	$ 8,589	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 10,561	12.3%	$ 3,436	≥ 4.0%	$ 5,153	≥ 6.0%
Tier I Capital (to Average Assets)	$ 10,561	8.3%	$ 5,079	≥ 4.0%	$ 6,349	≥ 5.0%

On a parent company only basis, the Corporation's primary source of funds is dividends paid by the Bank. The ability of the Bank to pay dividends is subject to limitations under various laws and regulations, and to prudent and sound banking principles. Generally, subject to certain minimum capital requirements, the Bank may declare dividends without the approval of the Office of the Comptroller of the Currency, unless the total dividends in a calendar year exceed the total of the Bank's net profits for the year combined with its retained profits of the two preceding years.

The Board of Governors of the Federal Reserve System generally considers it to be an unsafe and unsound banking practice for a bank holding company to pay dividends except out of current operating income, although other factors such as overall capital adequacy and projected income may also be relevant in determining whether dividends should be paid.

NOTE 15 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, and both able and willing to transact.

FASB ASC 820-10, *Fair Value Measurements* (ASC 820-10) requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820-10 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Corporation's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Corporation's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

NOTE 15 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
2011				
Recurring – securities available-for-sale:				
U.S. Treasury bonds	$ 2,111,874	$ -	$ -	$ 2,111,874
U.S. Government and federal agency obligations	-	21,357,885	-	21,357,885
Obligations of state and political subdivisions	-	9,083,737	-	9,083,737
Mortgage-backed	-	6,527,342	-	6,527,342
Bank certificates of deposit	-	734,468	-	734,468
Total recurring	$ 2,111,874	$ 37,703,432	$ -	$ 39,815,306
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 29,233	$ 29,233
Impaired loans	-	-	1,072,978	1,072,978
Total nonrecurring	$ -	$ -	$ 1,102,211	$ 1,102,211
2010				
Recurring – securities available-for-sale:				
U.S. Treasury bonds	$ 2,085,195	$ -	$ -	$ 2,085,195
U.S. Government and federal agency obligations	-	21,165,982	-	21,165,982
Obligations of state and political subdivisions	-	8,431,081	-	8,431,081
Mortgage-backed	-	5,071,207	-	5,071,207
Bank certificates of deposit	-	735,000	-	735,000
Total recurring	$ 2,085,195	$ 35,403,270	$ -	$ 37,488,465
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 82,829	$ 82,829
Impaired loans	-	-	1,416,740	1,416,740
Total nonrecurring	$ -	$ -	$ 1,499,569	$ 1,499,569

NOTE 15 - FAIR VALUE MEASUREMENTS (CONTINUED)

Impaired loans are reported net of an allowance for loan losses of $297,140 in 2011 and $198,724 in 2010.

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during 2011 and 2010 due to the lack of observable quotes in inactive markets for those instruments at December 31, 2011 and 2010.

The following is a summary of changes in non-recurring Level 3 assets for the year ended December 31, 2011:

	Other real estate owned	Impaired loans
Beginning of year	$ 82,829	$ 1,416,740
Transfers from unimpaired loans	-	320,046
Transfers between impaired loans and other real estate owned	16,668	(16,668)
Proceeds from sale or principal payments	(53,703)	(423,974)
Provision for loss	-	(223,166)
Loss on sale	(16,561)	-
End of year	$ 29,233	$ 1,072,978

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, follows.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Corporation’s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation’s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 15 - FAIR VALUE MEASUREMENTS (CONTINUED)

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities typically include U.S. treasury bonds and notes and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include corporate and municipal bonds, mortgage-backed securities, and asset-backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The Corporation did not have any available-for-sale securities classified as Level 3 as of and for the years ended December 31, 2011 and 2010.

Impaired Loans

The Corporation does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. Due to the significance of the Level 3 inputs, impaired loans fair values have been classified as Level 3. Losses included in earnings before income taxes amounted to $223,166 in 2011 and $377,196 in 2010 relating to impaired loans. Such losses are included in the provision for loan losses.

Other Real Estate Owned

The Bank values other real estate owned at the estimated fair value of the underlying collateral less expected selling costs. Such values are estimated primarily using appraisals and reflect a market value approach. Due to the significance of the Level 3 inputs, other real estate owned has been classified as Level 3.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. Financial assets and financial liabilities, excluding impaired loans and other real estate owned, measured at fair value on a nonrecurring basis were not significant at December 31, 2011 and 2010.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated carrying amounts and related fair values of financial instruments at December 31, 2011 and 2010, are as follows:

	2011		2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 9,247,048	$ 9,247,048	$ 8,680,249	$ 8,680,249
Securities, including restricted stock	40,794,356	40,794,356	38,467,515	38,467,515
Loans, net (including loans held for sale)	74,136,592	77,977,000	73,962,421	77,489,000
Accrued interest receivable	674,393	674,393	735,698	735,698
Financial liabilities:				
Deposits	111,198,742	112,070,000	110,110,684	110,885,000
FHLB borrowings	7,564,028	7,806,000	6,137,240	6,436,000
Accrued interest payable	46,103	46,103	49,395	49,395

The above summary does not include mortgage servicing rights, cash surrender value of life insurance and other liabilities which are also considered financial instruments. The estimated fair value of such items is considered to closely approximate their carrying amounts.

There are also unrecognized financial instruments at December 31, 2011 and 2010 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to $12,044,000 at December 31, 2011 and $11,929,000 at December 31, 2010. Such amounts are also considered to be the estimated fair values.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments shown above:

Cash and cash equivalents:

Fair value is determined to be the carrying amount for these items because they represent cash or mature in 90 days or less and do not represent unanticipated credit concerns.

Securities:

Fair value is determined based on quoted market prices of the individual securities or, if not available, estimated fair value was obtained by comparison to other known securities with similar risk and maturity characteristics. Such value does not consider possible tax ramifications or estimated transaction costs. The carrying value of restricted stock approximates fair value based on the redemption provisions of the entities.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans:

Fair value was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed rate loans the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows. The estimated value of credit card loans is based on existing loans and does not include the value that relates to estimated cash flows from new loans generated from existing cardholders over the remaining life of the portfolio.

Deposit liabilities:

The fair value of core deposits, including demand deposits, savings accounts, and certain money market deposits, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates offered at year end for deposits of similar remaining maturities. The estimated fair value does not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the marketplace.

Other financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount, since these financial instruments generally represent commitments at existing rates. The fair value of other borrowings is determined based on a discounted cash flow analysis using current interest rates.

The fair value estimates of financial instruments are made at a specific point in time based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument over the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Since no ready market exists for a significant portion of the financial instruments, fair value estimates are largely based on judgments after considering such factors as future expected credit losses, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

NOTE 17 - CONTINGENT LIABILITIES

In the normal course of business, the Corporation and Bank may be involved in various legal actions, but in the opinion of management and legal counsel, the ultimate disposition of such matters is not expected to have a material adverse effect on the consolidated financial statements.

Directors

Charles Niswander, Chairman; retired from Blanchard Valley Health System

Donald Dreisbach, Vice Chairman; retired Vice President of Sky Bank

David Rodabaugh, Secretary and Treasurer; Attorney at Law

Todd A. Mason, President and Chief Executive Officer

Martin Terry, Vice President, Business Affairs, University of Findlay

J. Peter Suter, Associate Professor of Business at Bluffton University

Jared Lehman, Executive Director Otterbein Cridersville

Executive Officer of Pandora Bancshares, Inc.

Todd A. Mason, President and Chief Executive Officer

Executive Officers of First National Bank of Pandora

Todd A. Mason, President and Chief Executive Officer

Annual Meeting
April 28, 2012 – 10:00 a.m.
The Centre
601 N. Main St.
Bluffton, OH 45817

Investor Information:
Investors, analysts and others seeking financial information may contact:

Todd A. Mason, CEO
Pandora Bancshares, Inc.
102 E. Main St.
Pandora, Ohio 45877

Bank Locations:

First National Bank	First National Bank	First National Bank	First National Bank
102 E. Main St.	112 Cherry St.	1630 Tiffin Ave.	1114 Trenton Ave,
Pandora, OH 45877	Bluffton, OH 45817	Findlay, OH 45840	Findlay, OH 45840
419-384-3221	419-358-5500	419-429-6000	419-425-2500

Officers and Employees
As of January 31, 2012

Todd A. Mason	President and Chief Executive Officer
Larry Hoffman	Senior Vice President/CFO
Mark DePue	Senior Vice President
Brendon Matthews	Senior Vice President
Chris Alexander	Vice President
Nita Crawford	Vice President/Human Resources
Patricia Garlock	Vice President
Doug Shaneyfelt	Vice President/IT
Larry Ward	Vice President
Vanessa Greer	Assistant Vice President
Janet Kingen	Assistant Vice President
Kimberly Reese	Assistant Vice President
Vicki Rossman	Assistant Vice President
Shari Schwab	Assistant Vice President
Gary Schultz	Assistant Vice President
Amy Searfoss	Assistant Vice President

Michael Bell
Sally Burris
BJ Burden
Dave Culver
Jolinda Dailey
Kable Deidrick
Deborah Diller
Linda Fleming
Stacy Geiger
Tom Hageman
Casandra Kent
Kristen Kissell
Kristine Lowry
Kelly McCluer
Jennifer Mershman
Barbara Ranes
Wynne Reynolds
Sherry Schlumbohm
Laura Schwab
Terry Sears
Lori Siefker
Jeff Stratton
Christina Torres
Adrienne Warren
Sharla Welty

Directors of the First National Bank of Pandora and Pandora Bancshares, Inc.

P. D. Bixel, MD
1919, 1934 – 1937
Carl Grismore
1919
J. A. Huffman
1919 – 1924
Noah Schumacher
1919 - 1933
C. Henry Smith*
1919 – 1948
P.C. Steiner
1919 – 1933
M. I. Trostle*
1919 – 1957
Louis Basinger
1920 – 1922
Otto McDowell
1920 – 1922
Elmer Campbell
1923 – 1924
J.A. Schutz
1923 – 1937
P.A. Suter
1923 – 1933
C.C. Wehly *
1923 – 1956
L. Shirl Hatfield*
1934 - 1954
Peter Hilty
1934 – 1952
Julian Kempf
1934 – 1952
Wilmer D. Niswander*
1938 – 1955, 1958 – 1961
Clifford Pierman
1949 – 1955

Irwin Hilty
1953 – 1968
Francis C. Marshall*
1953 – 1973
John H. Styer
1955 – 1969
Randall C. Etling
1956 – 1973
Lowell E. Hatfield*
1956 – 1961, 1964 – 1986
Francis Kempf
1957 – 1963
Milo B. Rice, MD*
1962-1973
Edward E. Schutz
1962
Warren Bridenbaugh*
1963 – 1979
Daniel W. Cook
1969 – 1984
Grover Geiger, Jr.*
1970 – 1986, 1988 – 1993
William Cupp
1974 – 1976
Robert R. Reese
1974 – 1986
Russell Suter
1974 – 1984
Daryl E. Amstutz
1977 – 1993
Robert Rice
1980 – 1986
Paul Bixel
1985 – 1986, 1988 – 1995
Lois Rodabaugh
1985 – 1989

Burnette Powell
1986 – 1987
Malcolm Basinger
1987 – 1999
David Emans
1988 – 2008
Mary S. Amstutz
1989 – 2001
Harold Van Scoder
1990 – 1996
Douglas Edinger
1994 – 2006
Paul Freeman*
1992 – 2002
David Rodabaugh
1994 – Present
James Stechschulte
1995 – 2003
Charles Niswander
1997 – Present
Donald Dreisbach
2003 – Present
G.W. Holden*
2003 – 2004
Martin Terry
2003 – Present
James A. Downhower*
2004 - 2005
F. Alan Blackburn*
2005 –2007
J. Peter Suter
2006 - Present
John Arnold
2007- 2009
Todd A. Mason*
2007- Present
Jared Lehman
2011 - Present

*Designates CEO

We wish to express our appreciation to the late Mr. Lowell Hatfield for his assistance compiling the above list. We appreciate the many years of service he and his family contributed to The First National Bank of Pandora.

We welcome your additions and corrections so that we may properly recognize those who have served our company. Please contact Nita Crawford at (419) 384-3221, Extension 1102.