PANDORA BANCSHARES, INC.
Pandora, Ohio

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

TABLE OF CONTENTS

March 1, 2011

Dear Shareholder:

Pandora Bancshares, Inc. ended 2010 with total assets of $128,445,858 compared to $122,770,111 in 2009. Net Income for the year was $810,283 compared to $806,146 in 2009. The dividend was increased to $1.80 per share from $1.60 per share in 2009, a 12.5% increase.

2010 was a year that saw our economy begin to stabilize. Even with historically high unemployment, initial jobless claims are showing signs of declining. Depositors continue to move investments into safe and sound organizations like First National Bank. Total deposits grew to $110,110,684 from $104,424,807 at December 31, 2009. Although the road to recovery in the housing market will be lengthy, First National Bank was able to achieve an overall delinquency rate of 1.30% as of December 31, 2010. Compared to a community bank peer average of 3.42%, this is a major accomplishment and demonstrates our continued emphasis on credit quality and prudent lending. 2010 was also a year in which First National Bank continued its commitment to local communities by actively participating in numerous charitable organizations, charity fundraisers, community events, and financial education programs. These efforts were formally recognized when First National Bank was named the sole recipient of the 2010 Community Partner Award presented by the Community Bankers Association of Ohio.

2011 will inevitably bring many challenges. We will not only deal with economic uncertainty and a weak real estate market, but also with a mountain of new regulations from the Dodd-Frank Wall Street Reform and Consumer Protection Act. Lawmakers are beginning implementation which will require the banking industry to follow hundreds of pages of rules. Compliance with the new rules will be costly, as they will require additional computer software, compliance training, and more employee hours that will ultimately reduce bank efficiency.

2011 also brings excitement at First National Bank. We will be rolling out our new website with the ability to open accounts online. We are looking forward to reviewing our new products and marketing approach with you at the Annual Meeting. The construction of our new Findlay West location will create long-term shareholder value and bring our community-minded banking approach to a new set of clients. Your Bank has experienced 37.7% asset growth since the end of 2006, and our new location is expected to enable us to continue to grow prudently with a focus on long-term profitability and health.

Whenever possible, we attempt to promote from within and help our staff grow as professionals. Significant promotions in 2010 include Brendon Matthews to Senior Vice President/Sales Manager and Kim Reese to Assistant Vice President/Operations.

Your team at First National Bank is “Building Community Greatness” and we are excited about the future. We will continue to serve our community by providing financial services they want and need. We will also continue our philosophy of community banking with local decisions and ownership. We thank you for your continued support of Pandora Bancshares, Inc., and we look forward to seeing you at the Annual Meeting on April 16 at the Center in Bluffton.

Sincerely,

Todd A. Mason	Charles Niswander	Donald R. Dreisbach
President/CEO	Chairman	Chairman
First National Bank	Pandora Bancshares, Inc.	First National Bank

PANDORA BANCSHARES, INC.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Years ended December 31				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share data)				
Statements of operations:					
Total interest income	$ 5,770	$ 6,111	$ 6,665	$ 6,647	$ 5,658
Total interest expense	1,304	1,861	2,560	2,955	2,383
Net interest income	4,466	4,250	4,105	3,692	3,275
Provision (credit) for loan losses	465	140	30	-	(410)
Net interest income after provision (credit) for loan losses	4,001	4,110	4,075	3,692	3,685
Total non-interest income	1,123	946	567	571	208
Total non-interest expenses	4,027	3,935	3,517	3,447	3,217
Income before federal income taxes	1,097	1,121	1,125	816	676
Federal income taxes	287	315	334	249	163
Net income	$ 810	$ 806	$ 791	$ 567	$ 513
Per share of common stock:					
Net income	$ 6.62	$ 6.47	$ 6.11	$ 4.36	$ 3.70
Dividends	1.80	1.60	1.40	1.25	1.10
Book value	90.48	87.16	81.48	73.79	69.76
Year-end balances					
Loans, net (A)	$ 73,962	$ 76,863	$ 74,898	$ 65,948	$ 55,439
Securities and restricted stock	38,468	28,897	26,966	27,405	27,865
Total assets	128,446	122,770	110,188	108,225	93,252
Deposits	110,111	104,425	91,158	91,458	79,705
Stockholders' equity	11,017	10,796	10,263	9,693	9,042
Average balances:					
Loans, net (A)	$ 74,448	$ 74,636	$ 70,293	$ 61,525	$ 53,732
Securities	31,046	27,204	28,327	26,469	29,025
Total assets	120,012	113,924	108,924	97,726	91,640
Deposits	102,077	95,969	90,364	83,385	77,689
Stockholders' equity	11,009	10,529	9,978	9,368	8,999
Selected ratios:					
Net yield on average interest-earning assets	4.03%	4.05%	4.06%	4.07%	3.86%
Return on average assets	0.68%	0.71%	0.73%	0.58%	0.56%
Return on average stockholders' equity	7.36%	7.66%	7.93%	6.05%	5.70%
Allowance for loan losses as a percentage of year-end loans	1.60%	1.58%	1.43%	1.53%	1.88%
Year-end stockholders' equity as a percentage of year-end assets	8.58%	8.79%	9.31%	8.96%	9.70%

(A) Includes loans held for sale

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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, 2010 and 2009, 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, 2010 and 2009, 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.

Clifton Gunderson LLP

Toledo, Ohio
March 1, 2011

PANDORA BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009

ASSETS	2010	2009
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 3,213,249	$ 3,238,114
Federal funds sold	5,467,000	6,642,000
Total cash and cash equivalents	8,680,249	9,880,114
SECURITIES, available-for-sale	37,488,465	27,927,494
RESTRICTED STOCK	979,050	969,050
LOANS HELD FOR SALE	726,749	544,550
LOANS – net of allowance for loan losses of $1,193,738 in 2010 and $1,223,073 in 2009	73,235,672	76,318,273
PREMISES AND EQUIPMENT, net	2,541,932	1,988,497
OTHER REAL ESTATE OWNED	82,829	404,606
ACCRUED INTEREST RECEIVABLE	735,698	933,277
CASH SURRENDER VALUE OF LIFE INSURANCE	2,855,506	2,730,150
OTHER ASSETS	1,119,708	1,074,100
TOTAL ASSETS	$ 128,445,858	$ 122,770,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 14,051,471	$ 14,659,608
Interest-bearing	96,059,213	89,765,199
Total deposits	110,110,684	104,424,807
Federal Home Loan Bank borrowings	6,137,240	6,278,749
Other liabilities	1,181,244	1,270,772
Total liabilities	117,429,168	111,974,328
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	9,707,023	9,117,427
Accumulated other comprehensive income	289,316	539,908
Treasury stock, at cost – 37,627 shares in 2010 and 35,526 shares in 2009	(2,336,006)	(2,217,909)
Total stockholders' equity	11,016,690	10,795,783
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 128,445,858	$ 122,770,111

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

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2010 and 2009

	2010	2009
INTEREST INCOME		
Loans – including fees	$ 4,863,941	$ 5,014,836
Securities:		
Taxable	728,979	949,628
Tax-exempt	125,837	77,109
Dividends on restricted stock	41,378	61,863
Other	9,399	7,258
Total interest income	5,769,534	6,110,694
INTEREST EXPENSE		
Deposits	1,092,715	1,634,670
Other borrowings	211,225	226,483
Total interest expense	1,303,940	1,861,153
Net interest income	4,465,594	4,249,541
PROVISION FOR LOAN LOSSES	465,000	140,000
Net interest income after provision for loan losses	4,000,594	4,109,541
NON-INTEREST INCOME		
Service charges:		
Deposit accounts	244,797	258,855
Other	26,427	24,362
Gain on sale of securities	6,652	7,030
Gain on sale of loans	443,210	378,965
Increase in cash surrender value of life insurance	119,408	124,408
Other, net	282,718	152,444
Total non-interest income	1,123,212	946,064
NON-INTEREST EXPENSES		
Salaries, wages and employee benefits	2,076,895	2,023,407
Occupancy and equipment	348,967	363,235
Data processing	428,392	305,150
Federal deposit insurance assessment	160,696	197,565
Professional and director fees	229,456	202,881
Advertising	68,602	93,145
Franchise tax	126,400	117,105
Other operating expenses	587,315	631,971
Total non-interest expenses	4,026,723	3,934,459
Income before income taxes	1,097,083	1,121,146
PROVISION FOR INCOME TAXES	286,800	315,000
NET INCOME	$ 810,283	$ 806,146
Net income per share (basic and diluted)	$ 6.62	$ 6.47

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, 2010 and 2009

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other compre-hensive income	Treasury stock	Total
BALANCE AT DECEMBER 31, 2008	$ 796,942	$ 2,559,415	$ 8,510,410	$ 492,051	$(2,096,055)	$10,262,763
Comprehensive income:						
Net income	-	-	806,146	-	-	806,146
Change in unrealized gain on available-for-sale securities, net of reclassification adjustments and income taxes	-	-	-	47,857	-	47,857
Total compre-hensive income						854,003
Purchase of 2,331 treasury shares	-	-	-	-	(136,837)	(136,837)
Sale of 240 treasury shares – employee stock purchase plan	-	-	(1,003)	-	14,983	13,980
Dividends declared – $1.60 per share	-	-	(198,126)	-	-	(198,126)
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 compre-hensive 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

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

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 810,283	$ 806,146
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	252,424	248,970
Provision for loan losses	465,000	140,000
Securities premium amortization, net of discount accretion	253,464	166,749
Deferred federal income taxes	(95,907)	(15,654)
Grant of stock to officer	5,900	-
Increase in cash surrender value of life insurance	(119,408)	(124,408)
Gain on sale of securities	(6,652)	(7,030)
Gain on sale of loans	(443,210)	(378,965)
Gain on sale of other real estate owned	(49,175)	-
Effects of changes in operating assets and liabilities:		
Loans held for sale	(182,199)	(371,150)
Accrued interest receivable	197,579	(34,921)
Other assets	132,561	(630,873)
Other liabilities	59,418	(193,776)
Net cash provided by (used in) operating activities	1,280,078	(394,912)
CASH FLOWS FROM INVESTING ACTIVITIES		
Available-for-sale securities:		
Sales	1,075,732	-
Maturities, prepayments and calls	14,546,840	10,748,377
Purchases	(25,810,040)	(12,765,974)
Purchase of restricted stock	(10,000)	-
Net decrease (increase) in loans	2,613,446	(1,679,798)
Proceeds from sale of other real estate owned	632,112	-
Premiums paid on life insurance policies	(5,948)	(96,188)
Additions to premises and equipment	(707,823)	(95,248)
Additions to other real estate owned	(35,000)	-
Net cash used in investing activities	(7,700,681)	(3,888,831)

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 5,685,877	$13,266,456
Decrease in federal funds purchased	-	(430,000)
Principal payments on other borrowings	(141,509)	(624,513)
Proceeds from sale of treasury shares	8,126	13,980
Purchase of treasury shares	(133,630)	(136,837)
Payment of dividends	(198,126)	(176,386)
Net cash provided by financing activities	5,220,738	11,912,700
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,199,865)	7,628,957
CASH AND CASH EQUIVALENTS		
At beginning of year	9,880,114	2,251,157
At end of year	$ 8,680,249	$ 9,880,114
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for:		
Interest	$ 1,320,130	$ 1,887,228
Income taxes	$ 462,000	$ 498,000
Non-cash operating activity:		
Change in deferred income taxes on net unrealized gains on available-for-sale securities	$ 129,093	$ (24,654)
Non-cash investing activity:		
Change in net unrealized gains on available-for-sale securities	$ (379,685)	$ 72,511
Non-cash operating and investing activity:		
Transfer of loans to other real estate owned	$ 226,160	$ 100,053

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 $ 315,000 and $332,000, respectively, of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2010 and 2009.

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. 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses, Continued

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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)

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, 2010 and 2009, 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 122,356 in 2010 and 124,685 in 2009.

Subsequent Events

Management evaluated subsequent events through March 1, 2011, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to March 1, 2011 that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010 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, 2010.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860-10 addresses accounting for transfers of financial assets. Among other requirements, the ASC removes the concept of a qualifying special-purpose entity and removes the exception from applying consolidation of variable interest entities to qualifying special-purpose entities. The objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASC 860-10 applies to any transfer of financial assets, which for the Corporation primarily relates to loan participations sold. The adoption of ASC 860-10 effective January 1, 2010 did not have any impact on the Corporation's December 31, 2010 consolidated financial statements since the Bank did not sell any loan participations during the year ended December 31, 2010.

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 are 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.

In July 2010, the FASB issued ASU 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* which will increase disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures will provide additional information about the nature of credit risk inherent in the Bank'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 are effective for the Corporation's December 31, 2011 consolidated financial statements.

NOTE 3 - SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, at December 31, 2010 and 2009, are as follows:

	2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
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

	2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities:				
U.S. Treasury note	$ 1,072,699	$ 5,973	$ -	$ 1,078,672
U.S. Government and federal agency obligations	13,995,025	297,142	-	14,292,167
Obligations of state and political subdivisions	5,628,809	122,588	4,883	5,746,514
Mortgage-backed	6,412,918	397,223	-	6,810,141
Total available-for-sale securities	$ 27,109,451	$ 822,926	$ 4,883	$ 27,927,494

The amortized cost and fair value of securities at December 31, 2010, 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	$ 3,208,240	$ 3,256,478
Due after one year through five years	21,902,203	21,968,662
Due after five years through ten years	7,185,105	7,192,118
Total	32,295,548	32,417,258
Mortgage-backed securities	4,754,559	5,071,207
Total available-for-sale securities	$ 37,050,107	$ 37,488,465

NOTE 3 - SECURITIES (CONTINUED)

At December 31, 2010 and 2009, securities with an amortized cost of $19,694,219 and $16,292,627, respectively, and a fair value of $20,101,620 and $16,804,387, 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, 2010 and 2009:

	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
2009						
Obligations of state and political subdivisions	$ 4,883	$ 534,000	$ -	$ -	$ 4,883	$ 534,000

There were 18 securities in an unrealized loss position at December 31, 2010. 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 $6,652 in 2010, with the income tax provision applicable to such gains amounting to $2,262. Gross realized gains (there were no gross realized losses) from sales of securities amounted to $7,030 in 2009, with the income tax provision applicable to such gains amounting to $2,390.

Restricted stock includes Federal Home Loan Bank stock of $853,000 at December 31, 2010 and 2009, and Federal Reserve Bank stock of $85,050 at December 31, 2010 and 2009.

NOTE 4 - LOANS

A summary of the balances of loans at December 31, 2010 and 2009 consists of the following:

	2010	2009
Mortgage loans on real estate:		
Residential 1 – 4 family	$ 11,086,337	$ 10,172,984
Commercial	32,417,193	33,200,129
Construction	671,056	595,523
Second mortgage	246,004	405,899
Equity lines of credit	8,267,633	8,049,865
Total mortgage loans on real estate	52,688,223	52,424,400
Commercial loans	19,280,192	22,766,301
Consumer installment loans	2,460,995	2,350,645
Total loans	74,429,410	77,541,346
Less allowance for loan losses	1,193,738	1,223,073
Loans, net	$ 73,235,672	$ 76,318,273
Allowance for loan losses as a percent of total loans	1.60%	1.58%

Most of the Bank's lending activities are with customers located in Northwestern and West Central Ohio. As of December 31, 2010 and 2009 the Bank's loans from borrowers in the agriculture industry represent the single largest industry and represented 16% and 21%, 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.

A summary of the allowance for loan losses consists of the following for the years ended December 31, 2010 and 2009:

	2010	2009
Balance at beginning of year	$ 1,223,073	$ 1,085,426
Provision for loan losses	465,000	140,000
Loans charged-off	(537,293)	(49,477)
Recoveries of loans previously charged-off	42,958	47,124
Balance at end of year	$ 1,193,738	$ 1,223,073

NOTE 4 - LOANS (CONTINUED)

The following is a summary of information pertaining to impaired loans at December 31, 2010 and 2009:

	2010	2009
Impaired loans with a valuation allowance	$ 1,086,831	$ 278,187
Impaired loans with no valuation allowance	528,633	246,495
Total impaired loans	$ 1,615,464	$ 524,682
Valuation allowance related to impaired loans	$ 198,724	$ 151,607

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, 2010 and 2009:

	2010	2009
Balance at beginning of year	$ 151,607	$ 40,000
Provision charged to operations	377,196	111,607
Loans charged-off	(330,079)	-
Balance at end of year	$ 198,724	$ 151,607

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2010 and 2009.

The following is a summary of information for the years ended December 31, 2010 and 2009 pertaining to impaired loans:

	2010	2009
Average investment in impaired loans	$ 1,512,700	$ 622,023
Interest income recognized on impaired loans	52,505	1,093
Interest income recognized on a cash basis on impaired loans	52,460	1,093

Loans on non-accrual of interest amounted to $711,276 and $771,341 at December 31, 2010 and 2009, respectively. Loans past due more than 90 days and still accruing interest amounted to $278,447 and $411,836 at December 31, 2010 and 2009, respectively.

NOTE 4 - LOANS (CONTINUED)

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 2010 and 2009 for such loans:

	2010	2009
Beginning of year	$ 120,451	$ 106,379
Additions	-	115,739
Repayments	(51,080)	(101,667)
End of year	$ 69,371	$ 120,451

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

NOTE 5 - PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment consists of the following at December 31, 2010 and 2009:

	2010	2009
Land	$ 1,042,023	$ 379,874
Buildings and building improvements	3,173,852	3,167,942
Furniture, fixtures, and equipment	1,060,412	1,218,578
	5,276,287	4,766,394
Less accumulated depreciation	2,734,355	2,777,897
Net bank premises and equipment	$ 2,541,932	$ 1,988,497

Depreciation expense for the years ended December 31, 2010 and 2009 amounted to $154,388 and $151,628, respectively.

On December 31, 2010, the Bank purchased land in Findlay for a future branch site. Through December 31, 2010, the Bank had incurred costs of $662,149 relating to the new branch, including the land purchase, and such amount is included in land at December 31, 2010.

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 $56,268,000 and $47,628,000 at December 31, 2010 and 2009, respectively.

The balance of capitalized servicing rights included in other assets amounted to $427,774 and $304,605 at December 31, 2010 and 2009, respectively.

During the years ended December 31, 2010 and 2009, the Bank capitalized $221,205 and $224,916, respectively, of servicing rights and such amounts are included in gain on sale of loans. Amortization of mortgage servicing rights amounted to $98,036 in 2010 and $97,342 in 2009.

NOTE 7 - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2010 and 2009 approximated $21,932,000 and $17,573,000, respectively. Interest expense on these deposits amounted to $287,361 in 2010 and $475,431 in 2009.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	$ 36,097,397
2012	11,867,302
2013	2,755,790
2014	2,476,418
2015	1,890,902
Thereafter	275,933
Total	$ 55,363,742

NOTE 8 - FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank borrowings consist of the following at December 31, 2010 and 2009:

	2010	2009
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 2.82%, due January 2015	1,000,000	1,000,000
Advances secured by individual residential mortgages under blanket agreement	137,240	278,749
Total Federal Home Loan Bank borrowings	$ 6,137,240	$ 6,278,749

NOTE 8 - FEDERAL HOME LOAN BANK BORROWINGS (CONTINUED)

Interest on advances outstanding at December 31, 2010 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, 2010 and 2009 was 3.37% and 3.44%, respectively. Borrowings are secured by mortgage loans approximating $13,936,000 as of December 31, 2010. 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, 2010, are as follows:

2011	$ 74,648
2012	2,522,340
2013	2,518,123
2014	10,803
2015	1,003,829
Thereafter	7,497
Total	$ 6,137,240

NOTE 9 - OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and related tax effects are as follows for the years ended December 31, 2010 and 2009:

	2010	2009
Unrealized holding gains (losses) on available-for-sale securities	$(373,033)	$ 79,541
Reclassification adjustments for net securities gains realized in income	(6,652)	(7,030)
	(379,685)	72,511
Tax effect	(129,093)	(24,654)
Net-of-tax amount	$(250,592)	$ 47,857

NOTE 10 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2010 and 2009 consist of the following:

	2010	2009
Current provision	$ 382,707	$ 330,654
Deferred credit	(95,907)	(15,654)
Total provision for income taxes	$ 286,800	$ 315,000

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:

	2010	2009
Expected tax using statutory tax rate of 34%	$ 373,000	$ 381,200
Decrease resulting from:		
Tax-exempt interest income, net of interest expense associated with cost to carry	(52,500)	(29,900)
Tax-exempt income on life insurance policies, net of premiums paid	(40,600)	(42,300)
Other, net	6,900	6,000
Total provision for income taxes	$ 286,800	$ 315,000

The deferred income tax credit of $95,907 in 2010 and $15,654 in 2009 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, 2010 and 2009:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 329,900	$ 211,600
Accrued employee benefits	204,200	178,500
Deferred interest income	-	17,400
Total deferred tax assets	534,100	407,500
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	149,042	278,135
Federal Home Loan Bank stock dividends	146,900	146,900
Depreciation	25,900	27,700
Mortgage servicing rights	145,400	103,600
Other	11,858	21,165
Total deferred tax liabilities	479,100	577,500
Net deferred tax assets (liabilities)	$ 55,000	$(170,000)

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, 2010 are years 2007 – 2010. Management does not believe the Corporation has any significant uncertain tax positions at December 31, 2010.

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, 2010 and 2009.

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 $47,811 in 2010 and $51,007 in 2009. There were no basic or optional employer contributions made during 2010 or 2009.

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 155 shares of stock in 2010 and 240 shares in 2009 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, 2010 and 2009, the Bank's liability for such deferred compensation payments amounted to $430,398 and $375,002, 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 $88,924 at December 31, 2010 and $70,433 at December 31, 2009. 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 $39,936 and $23,009, respectively, as of December 31, 2010 and 2009.

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 $2,855,506 and $2,730,150 at December 31, 2010 and 2009, 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 $41,284 and $56,528 at December 31, 2010 and 2009, 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, 2010. 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, 2010 and 2009 is as follows:

	2010		2009	
	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	7,000	$ 61.01	6,900	$ 61.02

Additional information pertaining to options outstanding at December 31, 2010 is as follows:

	Outstanding		Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price
$ 57.50	4,000	4.2	4,000	$ 57.50
$ 60.50	1,000	3.2	600	$ 60.50
$ 67.00	2,400	2.4	2,400	$ 67.00
Total	7,400	3.5	7,000	$ 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	
	2010	2009
Commitments to extend credit, including unfunded commitments under lines of credit	$ 11,459,000	$ 10,750,000
Commercial and standby letters of credit	470,000	393,000

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, 2010 and 2009, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2010, 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, 2010 and 2009 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, 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%
As of December 31, 2009						
Total Capital (to Risk-Weighted Assets)	$ 10,916	12.6%	$ 6,956	≥ 8.0%	$ 8,695	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 9,828	11.3%	$ 3,478	≥ 4.0%	$ 5,217	≥ 6.0%
Tier I Capital (to Average Assets)	$ 9,828	8.3%	$ 4,741	≥ 4.0%	$ 5,926	≥ 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, 2010 and 2009, 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
		(dollars in thousands)		
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
2009				
Recurring:				
Securities available-for-sale	$ 1,078,672	$ 26,848,822	$ -	$ 27,927,494
Nonrecurring:				
Other real estate owned	$ -	$ -	$ 404,606	$ 404,606
Impaired loans	-	-	373,075	373,075
Total nonrecurring	$ -	$ -	$ 777,681	$ 777,681

NOTE 15 - FAIR VALUE MEASUREMENTS (CONTINUED)

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during 2010 and 2009 due to the lack of observable quotes in inactive markets for those instruments at December 31, 2010 and 2009.

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.

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 securities classified as Level 3 as of December 31, 2010 and 2009.

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.

NOTE 15 - FAIR VALUE MEASUREMENTS (CONTINUED)

Impaired Loans, Continued

Losses included in earnings before income taxes amounted to $377,196 in 2010 and $111,607 in 2009 relating to impaired loans. Such losses are included in the provision for loan losses. There were no gains or losses relating to securities available-for-sale included in earnings before income taxes that were attributable to changes in fair values of securities held at December 31, 2010 and 2009.

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, 2010.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated carrying amounts and related fair values of financial instruments at December 31, 2010 and 2009, are as follows:

	2010		2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:				
Cash and cash equivalents	$ 8,680,2479	$ 8,680,249	$ 9,880,114	$ 9,880,114
Securities, including restricted stock	38,467,515	38,467,515	28,896,544	28,896,544
Loans, net (including loans held for sale)	73,962,421	77,489,000	76,862,823	79,619,000
Accrued interest receivable	735,698	735,698	933,277	933,277
Financial liabilities:				
Deposits	110,110,684	110,885,000	104,424,807	105,330,000
FHLB borrowings	6,137,240	6,436,000	6,278,749	6,543,000
Accrued interest payable	49,395	49,395	65,585	65,585

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.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

There are also unrecognized financial instruments at December 31, 2010 and 2009 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to $11,929,000 at December 31, 2010 and $11,143,000 at December 31, 2009. 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.

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.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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 16, 2011 – 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
102 E. Main St.
Pandora, OH 45877
419-384-3221

First National Bank
112 Cherry St.
Bluffton, OH 45817
419-358-5500

First National Bank
1630 Tiffin Ave.
Findlay, OH 45840
419-429-6000

Officers and Employees
As of January 31, 2011

Todd A. Mason	President and Chief Executive Officer
Mark DePue	Senior Vice President
Chris Alexander	Senior Vice President
Brendon Matthews	Senior Vice President
Amy Searfoss	Vice President/Retail Administration
Gary Schultz	Vice President
Larry Ward	Vice President
Nita Crawford	Assistant Vice President/Human Resources
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
Doug Shaneyfelt	Assistant Vice President
Ray Frey	Auditor

Michael Bell
Sally Burris
BJ Burden
Dave Culver
Jolinda Dailey
Kable Deidrick
Deborah Diller
Stacy Geiger
Tom Hageman
Casandra Kent
Kristen Kissell
Lesa Longworth
Kelly McCluer
Jennifer Mershman
Valerie Mullholand
Barbara Ranes
Sherry Schlumbohm
Laura Schwab
Lori Siefker
Lori Soli
April Sudlow
Christina Torres
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

Irvin 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

*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 ext. 1102.