

Pandora Bancshares, Inc.
ANNUAL REPORT

Celebrating



years



First National Bank

You. First. Always.

2018

PANDORA BANCSHARES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017



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PANDORA BANCSHARES, INC.
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YEARS ENDED DECEMBER 31, 2018 AND 2017

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January 31, 2019

Dear Shareholders and Friends:

Pandora Bancshares, Inc. is pleased to announce that 2018 results have exceeded our budgeted projections. We experienced Asset growth of 8.5%, Loan growth of 3.5%, Deposit growth of 8.4%, Net income increased 26.4%, and Pandora Bancshares stock price increased 8.0%. We are also excited because this strong performance allowed us to increase dividends by 8.7%.

In 2018, our national economy continued to show signs of improvement. This improvement prompted the Federal Reserve to increase the discount rate three times in 2018. The Federal Reserve has discussed more potential rate hikes in 2019. The Fed has stated employment goals have been met and that inflation goals are not far behind. Our balance sheet is positioned appropriately to handle the increase in interest rates. The increased rates did assist in the 7.2% improvement in net interest income in 2018.

Our bank is entering into our 100th year of existence. Those who initially founded our bank felt local ownership and high grade citizenship was the key to success for a Community Bank. We continue that belief with our Mission Statement, "Improving lives through community banking." All decisions we make must positively answer the question, "Does this decision improve the lives of our customers, shareholders, employees, and communities." This principle is the reason FNB is special. This is why we are relevant in our communities. We know our staff lives and breathes this mission. The proof is in the fact that our team members spent nearly 2,000 hours volunteering locally in 2018.

We are proud to serve our communities by helping our small businesses, farmers and all residents with excellent banking products and services. We strive to have state of the art technology available to all clients. It is our duty to give a rewarding experience to all of those who we touch.

In 2015, we began to use Greig McDonald from Community Banc Investments as a market maker for our stock. Community Banc Investments deals only with community bank stocks in Ohio. Greig's experience in community banks and his unbiased opinion on the value of our stock is a huge asset for FNB. Since working with Greig, we have seen a 35.6% increase in our stock price. If you are interested in purchasing or selling Pandora Bancshares, Inc. stock, please contact Greig McDonald at greig@cbibankstocks.com or 1-800-224-1013.

Our Directors, Management and Staff are very 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 Annual Shareholder Meeting on Saturday April 27, 2019, at 10:00 a.m. at The Centre, Bluffton, Ohio.

Respectfully,



Todd A. Mason
President and CEO
First National Bank



J. Peter Suter
Chairman
Pandora Bancshares, Inc.



John Arnold
Chairman
First National Bank

Pandora Bancshares, Inc.

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PANDORA BANCSHARES, INC.
FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA (UNAUDITED)

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands, Except per Share Data)				
Statements of Operations:					
Total Interest Income	\$ 7,447	\$ 6,492	\$ 5,971	\$ 5,774	\$ 5,408
Total Interest Expense	1,354	808	686	584	611
Net Interest Income	6,093	5,684	5,285	5,190	4,797
Provision for Loan Losses	105	110	60	80	58
Net Interest Income After Provision for Loan Losses	5,988	5,574	5,225	5,110	4,739
Total Noninterest Income	986	1,272	1,245	1,196	912
Total Noninterest Expenses	5,671	5,461	5,339	5,229	4,848
Income Before Federal Income Taxes	1,303	1,385	1,131	1,077	803
Federal Income Taxes	139	464	266	254	176
Net Income	<u>\$ 1,164</u>	<u>\$ 921</u>	<u>\$ 865</u>	<u>\$ 823</u>	<u>\$ 627</u>
Per Share of Common Stock (A):					
Net Income	\$ 4.61	\$ 3.64	\$ 3.43	\$ 3.26	\$ 2.54
Dividends	1.25	1.15	1.10	1.05	1.00
Book Value	57.43	55.02	52.91	51.82	50.06
Year-End Balances					
Loans, Net (B)	\$ 116,146	\$ 112,283	\$ 105,542	\$ 104,341	\$ 95,738
Securities and Other Investments	41,854	34,944	34,211	33,547	34,003
Total Assets	178,510	164,488	155,080	154,228	148,362
Deposits	157,928	145,662	136,135	133,450	130,950
Stockholders' Equity	14,448	13,901	13,346	13,093	12,514
Average Balances:					
Loans, Net (B)	\$ 114,250	\$ 108,146	\$ 103,293	\$ 97,998	\$ 92,376
Securities	37,913	34,821	33,611	33,735	35,443
Total Assets	167,352	157,920	152,134	146,250	142,098
Deposits	146,613	137,872	132,876	123,705	121,011
Stockholders' Equity	14,225	13,849	13,521	12,771	12,176
Selected Ratios:					
Net Yield on Average Interest-Earning Assets	3.96%	3.93%	3.81%	3.88%	3.70%
Return on Average Assets	0.70%	0.58%	0.57%	0.56%	0.44%
Return on Average Stockholders' Equity	8.18%	6.65%	6.40%	6.37%	5.15%
Allowance for Loan Losses as a Percentage of Year-End Loans	1.31%	1.24%	1.36%	1.39%	1.49%
Year-End Stockholders' Equity as a Percentage of Year-End Assets	8.09%	8.45%	8.61%	8.49%	8.44%

(A) Years 2014 through 2017 are Restated to Reflect the 2018 Two-for-One Stock Split

(B) Includes Loans Held for Sale



INDEPENDENT AUDITORS' REPORT

Board of Directors
Pandora Bancshares, Inc.
Pandora, Ohio

We have audited the accompanying consolidated financial statements of Pandora Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets, as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 consolidated financial statements are free of material misstatement.

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

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

Board of Directors
Pandora Bancshares, Inc.

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 its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Toledo, Ohio
February 21, 2019

PANDORA BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash Due from Banks	\$ 7,721,920	\$ 5,059,150
Federal Funds Sold	4,007,000	3,290,000
Total Cash and Cash Equivalents	11,728,920	8,349,150
Securities, Available-for-Sale	39,949,256	33,504,899
Other Investments	1,905,165	1,439,050
Loans Held for Sale	90,951	127,965
Loans, Net of Allowance for Loan Losses of \$1,541,068 in 2018 and \$1,411,917 in 2017	116,054,923	112,154,795
Premises and Equipment, Net	3,954,285	3,707,404
Other Real Estate Owned	40,100	308,300
Accrued Interest Receivable	753,732	618,286
Cash Surrender Value of Life Insurance	3,614,840	3,529,535
Other Assets	417,554	748,585
Total Assets	<u>\$ 178,509,726</u>	<u>\$ 164,487,969</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest Bearing	\$ 11,685,491	\$ 13,987,972
Interest Bearing	146,242,513	131,674,228
Total Deposits	157,928,004	145,662,200
Federal Home Loan Bank Borrowings	3,759,464	2,874,596
Other Liabilities	2,374,032	2,050,360
Total Liabilities	164,061,500	150,587,156
STOCKHOLDERS' EQUITY		
Common Stock, \$2.50 Par Value; Authorized 500,000 Shares, Issued 328,776 Shares	821,940	821,940
Additional Paid-in Capital	2,846,417	2,846,417
Retained Earnings	13,827,292	12,983,229
Accumulated Other Comprehensive Loss	(605,956)	(368,325)
Treasury Stock, at Cost - 77,215 Shares in 2018 and 76,132 Shares in 2017	(2,441,467)	(2,382,448)
Total Stockholders' Equity	<u>14,448,226</u>	<u>13,900,813</u>
Total Liabilities and Stockholders' Equity	<u>\$ 178,509,726</u>	<u>\$ 164,487,969</u>

See accompanying Notes to Consolidated Financial Statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Loans - Including Fees	\$ 6,547,411	\$ 5,780,550
Securities:		
Taxable	637,605	456,742
Tax Exempt	173,481	204,530
Dividends on Restricted Stock	51,960	33,600
Other	36,412	16,890
Total Interest Income	<u>7,446,869</u>	<u>6,492,312</u>
INTEREST EXPENSE		
Deposits	1,252,284	740,196
Other Borrowings	101,394	68,576
Total Interest Expense	<u>1,353,678</u>	<u>808,772</u>
NET INTEREST INCOME	6,093,191	5,683,540
PROVISION FOR LOAN LOSSES	<u>105,000</u>	<u>110,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,988,191	5,573,540
NONINTEREST INCOME		
Service Charges	254,013	292,044
Gain on Sale of Securities	-	110,153
Gain on Sale of Loans	221,914	193,786
Increase in Cash Surrender Value of Life Insurance	85,305	85,520
Other, Net	424,770	590,761
Total Noninterest Income	<u>986,002</u>	<u>1,272,264</u>
NONINTEREST EXPENSES		
Salaries, Wages, and Employee Benefits	2,983,636	2,699,704
Occupancy and Equipment	510,526	476,509
Data Processing	481,890	780,170
Federal Deposit Insurance Assessment	61,870	53,000
Professional and Director Fees	390,065	291,992
Advertising and Marketing	150,799	169,074
Ohio Financial Institution Tax	111,207	106,765
Other Operating Expenses	981,436	884,007
Total Noninterest Expenses	<u>5,671,429</u>	<u>5,461,221</u>
INCOME BEFORE INCOME TAXES	1,302,764	1,384,583
PROVISION FOR INCOME TAXES	<u>139,000</u>	<u>464,000</u>
NET INCOME	<u>\$ 1,163,764</u>	<u>\$ 920,583</u>
NET INCOME PER SHARE	<u>\$ 4.61</u>	<u>\$ 3.64</u>

See accompanying Notes to Consolidated Financial Statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET INCOME	\$ 1,163,764	\$ 920,583
OTHER COMPREHENSIVE LOSS		
Change in Unrealized Losses on Available-for-Sale Securities	(300,799)	(22,684)
Reclassification Adjustments for Securities Gains Realized in Income	<u>-</u>	<u>(110,153)</u>
Net Unrealized Losses	(300,799)	(132,837)
INCOME TAX EFFECT	<u>(63,168)</u>	<u>(45,165)</u>
OTHER COMPREHENSIVE LOSS	<u>(237,631)</u>	<u>(87,672)</u>
TOTAL COMPREHENSIVE INCOME	<u><u>\$ 926,133</u></u>	<u><u>\$ 832,911</u></u>

See accompanying Notes to Consolidated Financial Statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE - DECEMBER 31, 2016	\$ 821,940	\$ 2,846,417	\$ 12,296,306	\$ (220,042)	\$ (2,399,030)	\$ 13,345,591
Net Income	-	-	920,583	-	-	920,583
Other Comprehensive Loss	-	-	-	(87,672)	-	(87,672)
Purchase of 1,132 Treasury Shares	-	-	-	-	(53,062)	(53,062)
Grant of 720 Shares to Officers	-	-	-	-	31,615	31,615
Sale of 822 Treasury Shares	-	-	(3,731)	-	38,029	34,298
Dividends Declared - \$1.15 Per Share	-	-	(290,540)	-	-	(290,540)
Reclassification for Accounting Change	-	-	60,611	(60,611)	-	-
BALANCE - DECEMBER 31, 2017	821,940	2,846,417	12,983,229	(368,325)	(2,382,448)	13,900,813
Net Income	-	-	1,163,764	-	-	1,163,764
Other Comprehensive Loss	-	-	-	(237,631)	-	(237,631)
Purchase of 2,970 Treasury Shares	-	-	-	-	(153,712)	(153,712)
Grant of 670 Shares to Officers	-	-	-	-	32,830	32,830
Sale of 1,217 Treasury Shares	-	-	(5,250)	-	61,863	56,613
Dividends Declared - \$1.25 Per Share	-	-	(314,451)	-	-	(314,451)
BALANCE - DECEMBER 31, 2018	<u>\$ 821,940</u>	<u>\$ 2,846,417</u>	<u>\$ 13,827,292</u>	<u>\$ (605,956)</u>	<u>\$ (2,441,467)</u>	<u>\$ 14,448,226</u>

See accompanying Notes to Consolidated Financial Statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 1,163,764	\$ 920,583
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	390,993	369,754
Provision for Loan Losses	105,000	110,000
Net Securities Amortization	140,513	184,763
Deferred Federal Income Taxes	141,168	134,354
Grant of Common Stock to Officers	32,830	31,615
Increase in Cash Surrender Value of Life Insurance	(85,305)	(85,520)
Gain on Sale of Securities	-	(110,153)
Equity Loss on Other Investments	33,885	-
Gain on Sale of Loans	(221,914)	(193,786)
Gain on Sale of Other Real Estate Owned	(3,439)	(40,355)
Loss on Disposal of Equipment	-	17,504
(Increase) Decrease in Assets:		
Loans Held for Sale	37,014	374,860
Accrued Interest Receivable	(135,446)	(37,043)
Other Assets	254,420	83,609
Increase (Decrease) in Other Liabilities	(136,570)	193,783
Net Cash Provided by Operating Activities	<u>1,716,913</u>	<u>1,953,968</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Available-for-Sale Securities:		
Sales	-	9,357,710
Maturities, Prepayments, and Calls	2,803,898	5,308,867
Purchases	(9,689,567)	(15,146,545)
Proceeds from Disposal of Other Investments	-	40,000
Net Increase in Loans	(3,912,361)	(7,442,548)
Cash Paid for Other Investments	(63,669)	(8,273)
Proceeds from Sale of Other Real Estate Owned	271,639	943,177
Additions to Premises and Equipment	(510,116)	(172,314)
Net Cash Used by Investing Activities	<u>(11,100,176)</u>	<u>(7,119,926)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	12,265,804	9,526,726
Federal Home Loan Bank Borrowings	18,935,000	14,000,000
Principal Payments on Federal Home Loan Bank Borrowings	(18,050,132)	(15,372,452)
Proceeds from Sale of Treasury Shares	56,613	34,298
Purchase of Treasury Shares	(153,712)	(53,062)
Payment of Dividends	(290,540)	(277,458)
Net Cash Provided by Financing Activities	<u>12,763,033</u>	<u>7,858,052</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,379,770	2,692,094
Cash and Cash Equivalents - Beginning of Year	<u>8,349,150</u>	<u>5,657,056</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 11,728,920</u></u>	<u><u>\$ 8,349,150</u></u>

See accompanying Notes to Consolidated Financial Statements.

PANDORA BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for:		
Interest	<u>\$ 1,287,863</u>	<u>\$ 812,607</u>
Income Taxes	<u>\$ 245,000</u>	<u>\$ 80,000</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES		
Noncash Operating Activity:		
Change in Deferred Income Taxes on Net Unrealized		
Losses on Available-for-Sale Securities	<u>\$ (63,168)</u>	<u>\$ (45,165)</u>
Noncash Investing Activity:		
Change in Net Unrealized Losses on		
Available-for-Sale Securities	<u>\$ (300,799)</u>	<u>\$ (132,837)</u>
Noncash Operating and Investing Activity:		
Transfer of Loans to Other Real Estate Owned	<u>\$ -</u>	<u>\$ 308,300</u>
Noncash Investing and Financing Activity:		
Purchase of Other Investment Through Issuance of		
Capital Contribution Note	<u>\$ 500,000</u>	<u>\$ 500,000</u>

See accompanying Notes to Consolidated Financial Statements.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, Findlay, and Ottawa, 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates. The most significant estimate susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

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.

Securities and Other Investments

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

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities and Other Investments (Continued)

The cost of available-for-sale debt securities is adjusted for amortization of premiums and accretion of discounts. 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 noninterest income.

Other investments include Federal Home Loan Bank of Cincinnati and Federal Reserve Bank restricted stock, as well as investment in Ohio Equity Fund for Housing Limited Partnerships. These investments are 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.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay off generally is 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 nonaccrual 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 collectability of a loan balance is doubtful. Subsequent recoveries, if any, are credited to the allowance.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 collectability 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Under certain circumstances, the Bank may provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Concessions may include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt. TDR loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment, as previously described. TDR loans that have performed as agreed under the restructured terms for a period of 12 months or longer may cease to be reported as a TDR loan. However, the loan continues to be individually evaluated for impairment.

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.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated 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 servicing rights are recognized as an asset when acquired through sale of loans. Capitalized servicing rights are reported in other assets and amortized to expense in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Mortgage servicing rights are evaluated for impairment based upon the estimated fair value of the rights as compared to amortized cost. Fair value is determined based upon estimated discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount.

Servicing fee income is recorded for fees earned for servicing loans and is included in other noninterest 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment (Continued)

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.

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 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 officers, directors, and former employees of the Bank. These provisions are determined based on the terms of the agreements, as well as certain assumptions including estimated service periods and discount rates.

Advertising and Marketing Costs

Advertising and marketing 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 and 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Recognized revenue, expenses, gains, and losses are 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 accumulated other comprehensive income (loss).

Rate Lock Commitments

Loan commitments related to the origination or acquisitions 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, 2018 and 2017, derivative assets and liabilities relating to rate lock commitments were not material to the consolidated financial statements.

Per Share and Par Value Data

All per share and par value data, as well as shares issued and held in treasury, have been restated to reflect the impact of the two-for-one stock split approved by the Corporation's Board of Directors in June 2018. Net income per common share represents net income divided by the weighted average number of common shares outstanding during the year, restated for the stock split, amounting to 252,389 in 2018 and 252,666 in 2017. Dividends per share are based on the number of shares outstanding at the declaration date, after restatement for the stock split.

Subsequent Events

Management evaluated subsequent events through February 21, 2019, the date the consolidated financial statements were available to be issued.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For non-public companies, this update will be effective for annual and interim periods beginning after December 15, 2021. The Corporation has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In February 2018, the FASB issued ASU 2018-2, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The ASU is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Corporation elected to early adopt the provisions of ASU 2018-2 in 2017 and recognized a reclassification adjustment of \$60,611 between accumulated other comprehensive income and retained earnings for the year ended December 31, 2017.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

The amortized cost and fair value of available for sale securities, with gross unrealized gains and losses, at December 31, 2018 and 2017, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2018</u>				
U.S. Treasury Bond	\$ 5,503,030	\$ -	\$ 27,580	\$ 5,475,450
U.S. Government and Federal Agency Obligations	13,828,204	372	391,530	13,437,046
Obligations of State and Political Subdivisions	11,212,073	3,288	130,843	11,084,518
Mortgage-Backed	10,172,982	27,145	247,885	9,952,242
Total Available-for-Sale Securities	<u>\$ 40,716,289</u>	<u>\$ 30,805</u>	<u>\$ 797,838</u>	<u>\$ 39,949,256</u>
<u>December 31, 2017</u>				
Available-for-Sale Securities:				
U.S. Treasury Bond	\$ 502,052	\$ -	\$ 133	\$ 501,919
U.S. Government and Federal Agency Obligations	14,076,165	-	254,619	13,821,546
Obligations of State and Political Subdivisions	11,286,383	21,464	85,331	11,222,516
Mortgage-Backed	8,106,533	9,576	157,191	7,958,918
Total Available-for-Sale Securities	<u>\$ 33,971,133</u>	<u>\$ 31,040</u>	<u>\$ 497,274</u>	<u>\$ 33,504,899</u>

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

The amortized cost and fair value of available-for-sale securities at December 31, 2018, 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	\$ 6,604,847	\$ 6,476,806
Due After One Year Through Five Years	17,845,335	17,653,205
Due After Five Years Through Ten Years	6,093,125	5,867,003
Total	30,543,307	29,997,014
Mortgage-Backed Securities	10,172,982	9,952,242
Total Available-for-Sale Securities	<u>\$ 40,716,289</u>	<u>\$ 39,949,256</u>

At December 31, 2018 and 2017, available-for-sale securities with an amortized cost of \$31,048,205 and \$25,225,989, respectively, and a fair value of \$30,413,149, and \$25,239,460, respectively, were pledged to secure public deposits, borrowings, and for other purposes required or permitted by law.

The following table presents gross unrealized losses and fair value of available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2018 and 2017:

	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
<u>December 31, 2018</u>						
U.S. Treasury Bond	\$ 27,580	\$ 5,475,450	\$ -	\$ -	\$ 27,580	\$ 5,475,450
U.S. Government and Federal Agency Obligations	-	-	391,530	12,683,406	391,530	12,683,406
Obligations of State and Political Subdivisions	16,741	2,658,581	114,102	6,608,349	130,843	9,266,930
Mortgage-Backed	-	-	247,885	6,419,344	247,885	6,419,344
Total	<u>\$ 44,321</u>	<u>\$ 8,134,031</u>	<u>\$ 753,517</u>	<u>\$ 25,711,099</u>	<u>\$ 797,838</u>	<u>\$ 33,845,130</u>
<u>December 31, 2017</u>						
U.S. Treasury Bond	\$ 133	\$ 501,919	\$ -	\$ -	\$ 133	\$ 501,919
U.S. Government and Federal Agency Obligations	132,673	8,067,992	121,946	5,753,554	254,619	13,821,546
Obligations of State and Political Subdivisions	46,527	5,370,132	38,804	1,608,379	85,331	6,978,511
Mortgage-Backed	55,510	3,922,218	101,681	3,873,634	157,191	7,795,852
Total	<u>\$ 234,843</u>	<u>\$ 17,862,261</u>	<u>\$ 262,431</u>	<u>\$ 11,235,567</u>	<u>\$ 497,274</u>	<u>\$ 29,097,828</u>

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

There were 48 securities in an unrealized loss position at December 31, 2018, 12 of which were in a loss position less than 12 months. There were 40 securities in an unrealized loss position at December 31, 2017, 25 of which were in a loss position less than 12 months. These unrealized losses are considered temporary and were the result of customary and expected fluctuations in the bond market.

Gross realized gains from sales of available-for-sale securities amounted to \$110,153 in 2017 (none in 2018), with the income tax provision applicable to such gains amounting to \$37,452. There were no gross realized losses from sales of securities in 2018 and 2017.

Other Investments at December 31, 2018 and 2017 includes Federal Home Loan Bank of Cincinnati stock of \$853,000 and Federal Reserve Bank stock of \$85,050.

During both 2018 and 2017, the Bank acquired .5 units in Ohio Equity Fund for Housing Limited Partnership in exchange for a capital contribution note of \$500,000. The unpaid portion of the notes, amounting to \$928,058 and \$491,727, respectively, at December 31, 2018 and 2017, is included in other liabilities in the consolidated balance sheets. The notes are non-interest bearing and payable in installments at the direction of the general partner. The Bank recognized an equity loss of \$33,885 in 2018 (none in 2017) on these investments.

NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES

Most of the Bank's lending activities are with customers located in Northwestern and West Central Ohio. Loans to borrowers in the agriculture industry represent the single largest industry and represented 13% of the Bank's loan portfolio as of December 31, 2018 and 2017. 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 for such loans:

	2018	2017
Beginning of Year	\$ 201,308	\$ 160,303
Additions	379,483	340,930
Repayments	(321,230)	(299,925)
End of Year	<u>\$ 259,561</u>	<u>\$ 201,308</u>

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

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 years ended December 31, 2018 and 2017:

<u>December 31, 2018</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Commercial Real Estate</u>	<u>Real Estate Mortgage</u>		<u>Total</u>
				<u>Residential</u>	<u>Home Equity</u>	
Allowance for Loan Losses:						
Balance at January 1, 2018	\$ 197,367	\$ 55,319	\$ 476,492	\$ 538,544	\$ 144,195	\$ 1,411,917
Provision (Credit) for Loan Losses	43,085	4,922	78,832	(21,575)	(264)	105,000
Loans Charged off	-	(7,936)	-	-	-	(7,936)
Recoveries	20,968	3,504	-	1,424	6,191	32,087
Balance at December 31, 2018	261,420	55,809	555,324	518,393	150,122	1,541,068
Ending Balance Individually Evaluated for Impairment	-	-	-	-	-	-
Ending Balance Collectively Evaluated for Impairment	<u>\$ 261,420</u>	<u>\$ 55,809</u>	<u>\$ 555,324</u>	<u>\$ 518,393</u>	<u>\$ 150,122</u>	<u>\$ 1,541,068</u>
	<u>Commercial</u>	<u>Consumer</u>	<u>Commercial Real Estate</u>	<u>Real Estate Mortgage</u>		<u>Total</u>
				<u>Residential</u>	<u>Home Equity</u>	
Loans:						
Ending Balance	\$ 19,915,270	\$ 3,700,231	\$ 42,984,190	\$ 39,707,155	\$ 11,289,145	\$ 117,595,991
Ending Balance Individually Evaluated for Impairment	327,168	16,655	1,983,762	-	-	2,327,585
Ending Balance Collectively Evaluated for Impairment	<u>\$ 19,588,102</u>	<u>\$ 3,683,576</u>	<u>\$ 41,000,428</u>	<u>\$ 39,707,155</u>	<u>\$ 11,289,145</u>	<u>\$ 115,268,406</u>

PANDORA BANCSHARES, INC.
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NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

<u>December 31, 2017</u>	Real Estate Mortgage					
	Commercial	Consumer	Commercial Real Estate	Residential	Home Equity	Total
Allowance for Loan Losses:						
Balance at January 1, 2017	\$ 308,932	\$ 51,642	\$ 508,255	\$ 455,651	\$ 122,972	\$ 1,447,452
Provision (Credit) for Loan Losses	(117,615)	3,277	(18,908)	145,334	97,912	110,000
Loans Charged off	-	(2,919)	(15,305)	(62,441)	(76,689)	(157,354)
Recoveries	6,050	3,319	2,450	-	-	11,819
Balance at December 31, 2017	197,367	55,319	476,492	538,544	144,195	1,411,917
Ending Balance Individually Evaluated for Impairment	-	-	-	-	-	-
Ending Balance Collectively Evaluated for Impairment	<u>\$ 197,367</u>	<u>\$ 55,319</u>	<u>\$ 476,492</u>	<u>\$ 538,544</u>	<u>\$ 144,195</u>	<u>\$ 1,411,917</u>
Loans:	\$ 15,988,930	\$ 3,895,672	\$ 38,652,480	\$ 44,220,086	\$ 10,809,544	\$ 113,566,712
Ending Balance Individually Evaluated for Impairment	-	19,537	1,320,552	-	-	1,340,089
Ending Balance Collectively Evaluated for Impairment	<u>\$ -</u>	<u>\$ 3,876,135</u>	<u>\$ 37,331,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,226,623</u>

Construction loans are included in the commercial real estate and residential real estate loan categories and 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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.

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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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 table presents loans individually evaluated for impairment by class of loans as of December 31:

	2018		2017	
	Unpaid Principal Balance	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:				
Commercial	\$ 327,168	\$ -	\$ -	\$ -
Commercial Real Estate	1,983,762	-	1,320,552	-
Consumer	16,655	-	19,537	-
Total	<u>\$ 2,327,585</u>	<u>\$ -</u>	<u>\$ 1,340,089</u>	<u>\$ -</u>

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2018 and 2017.

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

	2018	2017
Average Investment in Impaired Loans	\$ 1,707,624	\$ 1,701,247
Interest Income Recognized on Impaired Loans	128,708	70,549
Interest Income Recognized on a Cash Basis on Impaired Loans	126,796	70,040

Included in impaired loans were commercial and commercial real estate loans with outstanding balances aggregating \$2,271,335 at December 31, 2018 and commercial real estate and consumer loans with outstanding balances aggregating \$1,320,552 at December 31, 2017, which have been modified in troubled debt restructurings. The Corporation had no specific reserves at December 31, 2018 and 2017 allocated to these loans. The Corporation intends to lend no additional amounts to these customers.

PANDORA BANCSHARES, INC.
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NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table presents the aging of the recorded investment in past due and nonaccrual loans for the years ended December 31, 2018 and 2017 by class of loans:

	Loans Past Due Accruing Interest				Loans on Nonaccrual	Loans not Past Due or on Nonaccrual	Total
	30 – 59 Days	60 – 89 Days	Over 90 Days	Total			
<u>December 31, 2018</u>							
Commercial	\$ 22,123	\$ -	\$ -	\$ 22,123	\$ -	\$ 19,893,147	\$ 19,915,270
Real Estate:							
Commercial	137,546	-	-	137,546	137,643	42,709,001	42,984,190
Home Equity	77,958	7,184	29,097	114,239	-	11,174,906	11,289,145
Residential	455,329	220,867	35,235	711,431	-	38,995,724	39,707,155
Consumer	12,261	18,671	-	30,932	-	3,669,299	3,700,231
Total	<u>\$ 705,217</u>	<u>\$ 246,722</u>	<u>\$ 64,332</u>	<u>\$ 1,016,271</u>	<u>\$ 137,643</u>	<u>\$ 116,442,077</u>	<u>\$ 117,595,991</u>
 <u>December 31, 2017</u>							
Commercial	\$ 188,682	\$ -	\$ 103,421	\$ 292,103	\$ -	\$ 15,696,827	\$ 15,988,930
Real Estate:							
Commercial	245,737	7,615	16,562	269,914	137,554	38,245,012	38,652,480
Home Equity	44,205	7,805	-	52,010	-	10,757,534	10,809,544
Residential	336,274	84,196	-	420,470	47,570	43,752,046	44,220,086
Consumer	24,622	5,647	62,477	92,746	-	3,802,926	3,895,672
Total	<u>\$ 839,520</u>	<u>\$ 105,263</u>	<u>\$ 182,460</u>	<u>\$ 1,127,243</u>	<u>\$ 185,124</u>	<u>\$ 112,254,345</u>	<u>\$ 113,566,712</u>

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:

- **Pass:** Loans classified as pass have no existing or known potential weaknesses requiring management's close attention.
- **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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Quality Indicators (Continued)

- **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.

As of December 31, 2018 and 2017, based on the most recent analysis performed, the risk category of loans by class of loans was as follows:

<u>December 31, 2018</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial	\$ 18,758,601	\$ 410,167	\$ 746,502	\$ -	\$ 19,915,270
Real Estate:					
Commercial	39,422,119	1,236,399	2,325,672	-	42,984,190
Home Equity	11,289,145	-	-	-	11,289,145
Residential	38,767,604	457,489	482,062	-	39,707,155
Consumer	3,674,019	-	26,212	-	3,700,231
Total	<u>\$ 111,911,488</u>	<u>\$ 2,104,055</u>	<u>\$ 3,580,448</u>	<u>\$ -</u>	<u>\$ 117,595,991</u>
<u>December 31, 2017</u>					
Commercial	\$ 15,071,424	\$ -	\$ 917,506	\$ -	\$ 15,988,930
Real Estate:					
Commercial	36,394,432	-	2,258,048	-	38,652,480
Home Equity	10,746,113	-	63,431	-	10,809,544
Residential	43,735,969	-	484,117	-	44,220,086
Consumer	3,819,054	-	76,618	-	3,895,672
Total	<u>\$ 109,766,992</u>	<u>\$ -</u>	<u>\$ 3,799,720</u>	<u>\$ -</u>	<u>\$ 113,566,712</u>

Newly classified troubled debt restructurings during the year ended December 31, 2018 consisted of the following:

	<u># Loans</u>	<u>Balance</u>
Commercial	3	\$ 327,168
Commercial Real Estate	2	1,111,121

Newly classified troubled debt restructurings during the year ended December 31, 2017 consisted of the following:

	<u># Loans</u>	<u>Balance</u>
Commercial Real Estate	2	\$ 1,072,612

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Quality Indicators (Continued)

The pre and post-modification recorded balances for this loan were the same. The troubled debt restructurings described above resulted in no increase to the allowance for loan losses in 2018 and 2017 and resulted in no charge offs during the years ended December 31, 2018 and 2017. The newly restructured loans referenced above have modified repayment terms.

NOTE 4 PREMISES AND EQUIPMENT

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

	2018	2017
Land	\$ 1,084,023	\$ 1,084,023
Buildings and Building Improvements	5,439,083	5,157,598
Furniture, Fixtures, and Equipment	1,486,217	1,284,198
Total Cost	8,009,323	7,525,819
Less: Accumulated Depreciation	4,055,038	3,818,415
Net Premises and Equipment	<u>\$ 3,954,285</u>	<u>\$ 3,707,404</u>

Depreciation of premises and equipment for the years ended December 31, 2018 and 2017 amounted to \$263,235 and \$247,812, respectively.

The Company has entered into an agreement to lease the land serving as the site for its Findlay East branch. Rent expense under the lease, which expires December 31, 2020, amounted to \$20,000 in 2018 and 2017. Future commitments at December 31, 2018 under the lease aggregated \$40,000 with \$20,000 payable annually in 2019 and 2020. The Company has renewal options to extend the lease through December 31, 2050.

NOTE 5 SECONDARY MARKET LENDING

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 \$73,623,000 and \$75,128,000 at December 31, 2018 and 2017, respectively.

The balance of capitalized servicing rights included in other assets amounted to \$341,168 and \$339,779 at December 31, 2018 and 2017, respectively.

During the years ended December 31, 2018 and 2017, the Bank capitalized \$129,147 and \$102,070, respectively, of servicing rights and such amounts are included in gain on sale of loans. Amortization of mortgage servicing rights amounted to \$127,758 in 2018 and \$121,942 in 2017.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 DEPOSITS

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2018 and 2017 approximated \$12,993,000 and \$17,213,000, respectively. Interest expense on these deposits amounted to \$160,467 in 2018 and \$121,219 in 2017.

At December 31, 2018, the scheduled maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 27,041,474
2020	9,987,451
2021	5,852,448
2022	3,382,497
2023	580,961
Thereafter	20,524
Total	<u>\$ 46,865,355</u>

NOTE 7 FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank borrowings consist of advances secured by individual residential mortgages under blanket agreement amounting to \$3,759,464 at December 31, 2018 and \$2,874,596 at December 31, 2017.

Interest on advances outstanding at December 31, 2018 ranged from 1.08% to 3.18%, with interest payable monthly and maturities ranging through January 2032. The weighted-average interest rate of Federal Home Loan Bank borrowings outstanding at December 31, 2018 and 2017 was 2.24% and 1.74%, respectively. Borrowings are secured by mortgage loans approximating \$43,902,000 and \$44,298,000 at December 31, 2018 and 2017, respectively. 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, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 700,214
2020	550,954
2021	475,773
2022	409,765
2023	345,163
Thereafter	1,277,595
Total	<u>\$ 3,759,464</u>

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was signed into law. Among other things, the Act reduces the Corporation's federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Corporation is required to re-measure, through the provision for income taxes, its deferred tax assets and liabilities using the enacted rate at which they are expected be recovered or settled. The re-measurement of the net deferred tax asset resulted in an additional provision for income taxes of \$106,000 for 2017.

The provision for income taxes for the years ended December 31, 2018 and 2017 consist of the following:

	2018	2017
Current Provision	\$ (2,168)	\$ 329,646
Deferred Provision	141,168	28,354
Impact of enacted federal tax reform	-	106,000
Total Provision for Income Taxes	<u>\$ 139,000</u>	<u>\$ 464,000</u>

The income tax provision attributable to income from operations differed from the amounts computed by applying the U.S. federal income tax rate of 21% for 2018 and 34% for 2017 to income before income taxes as a result of the following:

	2018	2017
Expected Tax Using Statutory Tax Rate	\$ 273,600	\$ 470,800
Increase (Decrease) Resulting from:		
Tax-Exempt Interest Income, Net of Interest Expense		
Associated with Cost to Carry	(47,000)	(86,900)
Tax-Exempt Income on Life Insurance Policies	(17,900)	(29,100)
Impact of enacted federal tax reform	-	106,000
Other, Net	(69,700)	3,200
Total Provision for Income Taxes	<u>\$ 139,000</u>	<u>\$ 464,000</u>

The deferred income tax provision of \$134,354 in 2017 included the enactment of federal tax reform. The deferred tax provision of \$141,168 in 2018 and the remaining deferred tax provision in 2017 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 INCOME TAXES (CONTINUED)

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

	2018	2017
Deferred Tax Assets:		
Allowance for Loan Losses	\$ 271,700	\$ 249,600
Accrued Employee Benefits	97,500	103,800
Net Unrealized Loss on Securities Available-for-Sale	161,077	97,909
Other	4,623	591
Total Deferred Tax Assets	<u>534,900</u>	<u>451,900</u>
Deferred Tax Liabilities:		
Federal Home Loan Bank Stock Dividends	90,700	90,700
Depreciation	266,400	69,000
Mortgage Servicing Rights	71,600	71,400
Other	4,200	40,800
Total Deferred Tax Liabilities	<u>432,900</u>	<u>271,900</u>
Net Deferred Tax Assets	<u>\$ 102,000</u>	<u>\$ 180,000</u>

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

The federal income tax returns of the Corporation that remains open and subject to examination at December 31, 2018 are years 2015 – 2018. Management does not believe the Corporation has any significant uncertain tax positions at December 31, 2018 and 2017.

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, 2018 and 2017.

NOTE 9 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 vested in employer basic and matching contributions based on years of service. Employer matching contributions amounted to \$64,809 in 2018 and \$58,730 in 2017. There were no basic or optional employer contributions made during 2018 or 2017.

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 552 shares of stock in 2018 and 492 shares in 2017 under the plan.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2018 and 2017, the Bank's liability for such deferred compensation payments amounted to \$308,479 and \$341,920, 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 \$152,807 at December 31, 2018 and \$140,670 at December 31, 2017.

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 \$3,614,840 and \$3,529,535 at December 31, 2018 and 2017, respectively.

NOTE 10 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	
	2018	2017
Commitments to Extend Credit, Including Unfunded		
Commitments Under Lines of Credit	\$ 21,152,000	\$ 20,905,000
Commercial and Standby Letters of Credit	7,383,000	383,000

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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 10 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK (CONTINUED)

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 11 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. These capital requirements were modified in 2013 with the Basel III capital rules which establish a new comprehensive capital framework for U.S. banking organizations. The Corporation and Bank became subject to the new rules on January 1, 2015, with a phase-in period for many of the new provisions.

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 Common Equity Tier 1, Tier I and total 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, 2018 and 2017, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2018, 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. The Bank also believes it would meet all of the new Basel III capital requirements on a fully phased-in basis if such requirements were currently effective.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 REGULATORY MATTERS (CONTINUED)

The actual capital amounts and ratios of the Bank as of December 31, 2018 and 2017 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)								
<u>As of December 31, 2018</u>									
Total Capital (to Risk- Weighted Assets)	\$	16,534	12.51%	\$	10,573	≥ 8.0%	\$	13,217	≥ 10.0%
Common Equity Tier I Capital (to Risk- Weighted Assets)	\$	14,993	11.34%	\$	5,948	≥ 4.5%	\$	8,591	≥ 6.5%
Tier I Capital (to Risk- Weighted Assets)	\$	14,993	11.34%	\$	7,930	≥ 6.0%	\$	10,573	≥ 8.0%
Tier I Capital (to Average Assets)	\$	14,993	8.65%	\$	6,934	≥ 4.0%	\$	8,668	≥ 5.0%
<u>As of December 31, 2017</u>									
Total Capital (to Risk- Weighted Assets)	\$	15,574	12.90%	\$	9,656	≥ 8.0%	\$	12,070	≥ 10.0%
Common Equity Tier I Capital (to Risk- Weighted Assets)	\$	14,162	11.73%	\$	5,431	≥ 4.5%	\$	7,845	≥ 6.5%
Tier I Capital (to Risk- Weighted Assets)	\$	14,162	11.73%	\$	7,242	≥ 6.0%	\$	9,656	≥ 8.0%
Tier I Capital (to Average Assets)	\$	14,162	8.66%	\$	6,538	≥ 4.0%	\$	8,173	≥ 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements*, requires the use of valuation techniques that 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 – 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial assets (there were no financial liabilities) measured at fair value as of December 31, 2018 and 2017, 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
<u>December 31, 2018</u>				
Recurring - Securities				
Available-for-Sale:				
U.S. Treasury Bond	\$ 5,475,450	\$ -	\$ -	\$ 5,475,450
U.S. Government and Federal Agency Obligations	-	13,437,046	-	13,437,046
Obligations of State and Political Subdivisions	-	11,084,518	-	11,084,518
Mortgage-Backed	-	9,952,242	-	9,952,242
Total Recurring	<u>\$ 5,475,450</u>	<u>\$ 34,473,806</u>	<u>\$ -</u>	<u>\$ 39,949,256</u>
<u>December 31, 2017</u>				
Recurring - Securities				
Available-for-Sale:				
U.S. Treasury Bonds	\$ 501,919	\$ -	\$ -	\$ 501,919
U.S. Government and Federal Agency Obligations	-	13,821,546	-	13,821,546
Obligations of State and Political Subdivisions	-	11,222,516	-	11,222,516
Mortgage-Backed	-	7,958,918	-	7,958,918
Total Recurring	<u>\$ 501,919</u>	<u>\$ 33,002,980</u>	<u>\$ -</u>	<u>\$ 33,504,899</u>

There were no financial instruments measured at fair value that moved to a lower level in the fair value hierarchy during 2018 and 2017 due to the lack of observable quotes in inactive markets for those instruments at December 31, 2018 and 2017.

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 credit worthiness, 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.

PANDORA BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 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. 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 agency securities, municipal bonds, and mortgage-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, 2018 and 2017.

NOTE 13 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 of Pandora Bancshares, Inc.

J. Peter Suter, Chairman; Local Business Owner
John B. Arnold, Vice Chairman; Local Business Owner
Jared Lehman, Secretary; President & CEO Lima Family YMCA
Todd A. Mason, President and Chief Executive Officer
Randal J. Verhoff, CPA, Verhoff & Company, LLC
Scott L. Basinger, Esq.

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
Larry E. Hoffman, Executive Vice President and Chief Financial Officer
Brendon Matthews, Executive Vice President and Senior Lender
Chris Alexander, Executive Vice President/Findlay City Executive
Jennifer Vastano, Sr. Vice President/Retail Administration/Marketing Director

Annual Meeting

April 27, 2019 – 10:00 a.m.
Centre at Bluffton
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:

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

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

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

1114 Trenton Ave,
Findlay, OH 45840
419-425-2500

855 N. Locust St.
Ottawa, OH 45875
419-523-5500

**Officers and Employees
As of December 31, 2018**

Todd A. Mason	President and Chief Executive Officer
Larry E. Hoffman	Executive Vice President/CFO
Chris Alexander	Executive Vice President/Findlay City Executive
Brendon Matthews	Executive Vice President/Senior Lender
Jennifer Vastano	Sr. Vice President/Retail Administration/Marketing Director
Michelle Brandt	Vice President/BSA, CRA and Compliance Officer
Max Long	Vice President/Core Administrator/Security Officer
Doug Shaneyfelt	Vice President/IT
Vanessa Greer	Assistant Vice President
Amy Groves	Assistant Vice President
Janet Kingen	Assistant Vice President
Heather Rakay	Assistant Vice President
Shari Schwab	Assistant Vice President
Lisa Wheeler	Assistant Vice President

William Bibler
Megan Bright
Heidi Brooks
Samantha Bryan
Shane Bugner
Victoria Burkholder
Sally Burris
Mikaila Cox
Courtney Deitrick
Christy Diller
Angela Drerup
Kacy Duling
Miranda Gibson
Emily Haag
Kayla Hazelton
Roseann Hoffman
Alison Hovest
Tessa Howe
Melissa Johnston
Ashley Krupp
Alice Maag
Shawn McFarland
Angie Morman
Kristen Mullins
Kurt Mullins
Jessica Parker
Barbara Ranes
Elizabeth Reynolds
Dawn Snider
Megan Stumbaugh
Stacy Stumbaugh
Brandie Verhoff
Adrienne Warren
Donna Worchuck

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

P. D. Bixel, MD 1919, 1934 – 1937	Francis C. Marshall* 1953 – 1973	David Emans 1988 – 2008
Carl Grismore 1919	John H. Styer 1955 – 1969	Mary S. Amstutz 1989 – 2001
J. A. Huffman 1919 – 1924	Randall C. Etling 1956 – 1973	Harold Van Scoder 1990 – 1996
Noah Schumacher 1919 - 1933	Lowell E. Hatfield* 1956 – 1961, 1964 – 1986	Douglas Edinger 1994 – 2006
C. Henry Smith* 1919 – 1948	Francis Kempf 1957 – 1963	Paul Freeman* 1992 – 2002
P.C. Steiner 1919 – 1933	Milo B. Rice, MD* 1962-1973	David Rodabaugh 1994 – 2016
M. I. Trostle* 1919 – 1957	Edward E. Schutz 1962	James Stechschulte 1995 – 2003
Louis Basinger 1920 – 1922	Warren Bridenbaugh* 1963 – 1979	Charles Niswander 1997 – 2016
Otto McDowell 1920 – 1922	Daniel W. Cook 1969 – 1984	Donald Dreisbach 2003 – 2015
Elmer Campbell 1923 – 1924	Grover Geiger, Jr.* 1970 – 1986, 1988 – 1993	G.W. Holden* 2003 – 2004
J.A. Schutz 1923 – 1937	William Cupp 1974 – 1976	Martin Terry 2003 – 2015
P.A. Suter 1923 – 1933	Robert R. Reese 1974 – 1986	James A. Downhower* 2004 - 2005
C.C. Wehly * 1923 – 1956	Russell Suter 1974 – 1984	F. Alan Blackburn* 2005 –2007
L. Shirl Hatfield* 1934 - 1954	Daryl E. Amstutz 1977 – 1993	J. Peter Suter 2006 - Present
Peter Hilty 1934 – 1952	Robert Rice 1980 – 1986	John Arnold 2007- 2009, 2015 - Present
Julian Kempf 1934 – 1952	Paul Bixel 1985 – 1986, 1988 – 1995	Todd A. Mason* 2007- Present
Wilmer D. Niswander* 1938 – 1955, 1958 – 1961	Lois Rodabaugh 1985 – 1989	Jared Lehman 2011 – Present
Clifford Pierman 1949 – 1955	Burnette Powell 1986 – 1987	Randal Verhoff 2013 – Present
Irwin Hilty 1953 - 1968	Malcolm Basinger 1987 – 1999	Scott Basinger 2016 - Present

*Designates CEO

We welcome your additions and corrections so that we may properly recognize those who have served our community bank. Please contact Heather Rakay at (419) 384-9104.



First National Bank

You. First. Always.

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Phone: (419) 384-3221