



First National Bank

You. First. Always.

July 31, 2023

Dear Shareholders and Friends:

Another quarter of community banking is in the books. While external circumstances are constantly evolving, our team at First National Bank remains focused on improving lives in our communities and we are committed to our mission.

2023 has been a unique and challenging year so far, and there are plenty of both positives and negatives to share and review. First, net income is down by \$349,000 or 41% compared to the same period in 2022. The most significant contributing factor to this drop in income is net interest margin. Even though loan growth is ahead of budget in 2023 and balances are up \$18.9 million or 13% year over year, margin continues to tighten, primarily because the Bank's cost of funding is increasing more rapidly than the increase in yield on loans. Because the Federal Reserve has increased rates by 5.25% with 11 separate rate hikes since March, 2022, competition for deposits has been aggressive and it has come from a wide variety of bank and non-bank entities. As a result, funding costs have spiked and the Bank's interest expense has increased \$1.309 million year over year and net interest margin is 3.05% compared to the June 30, 2022, margin of 3.38%. Overall, net interest income is down \$274,000 from the same period a year ago.

While the tightening margin has been painful so far this year, the Bank is well positioned to benefit from existing loans repricing in the next 12-36 months. More than 31% of the loan portfolio will reprice in this timeframe, which is significantly better than other local peer banks. Year over year total asset growth is \$12.4 million, or 5.2%. Overall deposit balances are up \$7.5 million or 3.4% year over year through June 30, but our challenge will be to continue developing deposit banking relationships even as competition for dollars remains intense in the marketplace. Our First Choice Rewards checking account will continue to be an important tool in our toolbox to stay competitive with rates as this product is the best local account for personal checking clients. Additionally, the account also encourages other accountholder behaviors that generate non-interest revenue for First National Bank.

Transitioning to the non-interest side of the income statement, income is up \$148,000 year over year due to improvement in several different categories including mortgage activity and ATM/debit card income which is connected to the First Choice Rewards account referenced above. Non-interest expenses are also up \$372,000 primarily because of the new branch in Lima that has added planned new expenses in the form of additional payroll and data processing costs. Finally, the Bank periodically purchases tax credits to offset taxable net income. Even though net income is down year over year, the tax credit is a fixed amount monthly and is positively impacting our bottom line year to date.

The Bank's equity position is stable at \$14.930 million and compares to equity of \$15.174 million at the same time in 2022. Unrealized losses of \$6.369 million remain on the balance sheet, but the intent is to hold these securities until maturity. The Bank's liquidity remains strong and contingent funding sources are more than sufficient to support bank operations in the unlikely event they are needed. Equity position is also in line with the Bank's five year capital plan and is currently above the projected average balance for 2023. ROA is 0.41% and ROE is 6.69% through June 30, 2023 compared to 0.71% and 9.97% respectively a year ago.

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The Federal Reserve continues to attempt to balance unemployment and inflation, and even though the most recent data on inflation shows some positive signs, additional interest rate hikes are still on the table and it will be challenging for The Fed to manage a soft landing without the end result being a recession. Credit quality has remained strong and borrowers across all loan types continue to pay as agreed. While the excess cash in the system has been slowly spending down, our overall client base remains healthy.

Home prices are stable and residential construction continues to be an active area in the bank as housing inventory locally remains relatively low. Home mortgage lending is a core component of community banking, and we have invested heavily in our mortgage department in the last 12 months in terms of personnel, software, and training to make sure we remain competitive and relevant in the market. Andrew Rager is an experienced mortgage originator in Allen County, and he joined the Bank in the 4th quarter of 2022 as our Mortgage Lending Manager. He continues to originate mortgages in the Limaland area, but he is also providing support and mentoring to our entire mortgage team. Courtney Geus joined First National Bank as Underwriting Manager in April, 2023, and she is using her considerable credit expertise to make sure our mortgage administration is as strong as our originating team. We are excited about the long-term prospects for our mortgage department at First National Bank.

We continue to see exciting things happening at our newest branch in Lima at 2580 Eastown Road between Lock Sixteen and Menards. The Lima West office is on track compared to budget and ahead of projections on new account openings due in large part to the efforts of Martrice Smith, our West branch manager, and his excellent team. Martrice is an Elida High School graduate and a Lima resident, and it has been great to see the response to his team's local involvement and efforts in the community.

In other Lima news, we recently committed to opening a 2nd branch east of I75 at 1991 Bellefontaine Road (SR 117) just north of Sam's Club. We plan to break ground on the new location in September, and we expect to be open for business in Spring, 2024. Much like our Findlay market where it took a branch on each side of the city to effectively serve the client base in Hancock County, this second location in Lima will allow us to best serve the entire Limaland area from both sides of the city.

As of 6/30/2023 the closing ask price for our stock is \$88.50, which is up 6.7% from 6/30/2022. If you are interested in buying or selling Pandora Bancshares, Inc. stock, please contact our market maker Jennifer McFarland with Community Banc Investments, Inc. at jennifer@cbibankstocks.com or 800-224-1013. If you would like to get our newsletter electronically or receive direct deposit of dividends, please contact Heather Taviano at htaviano@e-fnb.com or 419-384-9104.

We are very excited about the remainder of 2023 and the current direction of First National Bank. Our Bank Directors, Management and Staff are continuing to work hard to enhance shareholder value. We thank you for your support, your business, and your referrals.

Respectfully,

Todd A. Mason
President & CEO
First National Bank

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Pandora Bancshares, Inc. and Subsidiary

Financial Information (unaudited) (dollars in thousands, except share data)	Six Months Ended Jun 30, 2023	Six Months Ended Jun 30, 2022
CONDENSED STATEMENT OF INCOME		
Interest Income	\$4,964	\$3,930
Interest Expense	<u>1,527</u>	<u>218</u>
Net Interest Income	3,437	3,711
Provision for loan losses	<u>0</u>	<u>0</u>
Net interest income after provision for loan losses	3,437	3,711
Non-interest income	569	421
Non-interest expenses	<u>3,553</u>	<u>3,181</u>
Income before income taxes	453	951
Provision/(credit) for income taxes	<u>-46</u>	<u>103</u>
Net income	<u>\$499</u>	<u>\$848</u>
Average common shares outstanding	251,950	252,443
PER COMMON SHARE		
Net income	\$1.98	\$3.36
Book value	\$59.26	\$60.11
Book value excluding unrealized gain (loss)	\$84.54	\$81.40
Closing bid price	\$84.30	\$79.00
Closing ask price	\$88.50	\$82.95
FINANCIAL RATIOS		
Return on average assets	0.41%	0.71%
Return on average equity	6.69%	9.97%
Net interest margin	3.05%	3.38%
Efficiency ratio	88.70%	76.99%
Loans to deposits	72.34%	66.19%
Allowance for loan losses to loans	1.30%	1.39%
PERIOD END BALANCES		
	As of <u>Jun 30, 2023</u>	As of <u>Jun 30, 2022</u>
Assets	\$250,461	\$238,065
Loans - net of allowance	\$164,174	\$145,249
Deposits	\$226,943	\$219,456
Shareholders' equity	\$14,930	\$15,174
Common shares outstanding	251,333	251,724