



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 29, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Pandora
Charter Number 11343

102 E. Main Street
Pandora, Ohio 45877

Office of the Comptroller of the Currency

Central Ohio Field Office
325 Cramer Creek Court, Suite 101
Dublin, Ohio 43017

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING:
This institution is rated Satisfactory.**

- The bank's lending to low- and moderate-income borrowers and businesses of different sizes is reasonable.
- A substantial majority of the bank's lending activity occurs within its assessment areas.
- The bank's loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Pandora (FNB) is a wholly owned subsidiary of a one-bank holding company, Pandora Bancshares, Inc. Both FNB and its holding company are headquartered in the Village of Pandora, Ohio. Pandora is located in Putnam County in northwest Ohio, about 110 miles northwest of Columbus, Ohio. Besides its main office in Pandora, FNB has two full service branches. One branch is in Bluffton, Ohio, located eight miles southeast of Pandora, and the other branch is in Findlay, Ohio, which is approximately 20 miles northeast of Pandora. The bank offers retail, commercial and agricultural banking products and services in all three of these full-service locations. In addition, the bank has two off-premise ATMs with one on the campus of a local private college in Bluffton and the other one in a warehouse distribution center in Findlay. There have been no branch openings or closings since the last CRA examination in 2002.

FNB's primary business focus is residential real estate and commercial lending with some agricultural and consumer lending as well. No legal or financial impediments exist that could restrict FNB's ability to meet the credit needs of its assessment areas. FNB received a "Satisfactory" rating at its last CRA examination dated August 21, 2002.

As of June 30, 2008, FNB reported total assets of \$107.7 million, \$88.9 million in total deposits, and \$72.1 million in net loans.

DESCRIPTION OF ASSESSMENT AREAS

FNB has two assessment areas (AAs). The first AA is located in a non-Metropolitan Statistical Area (non-MSA AA) and the second AA is located within the Lima, Ohio MSA #30620 (MSA AA). Both AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas.

Our discussion with a local government official in Putnam County and a review of recent CRA Performance Evaluations completed for other banks in both AAs indicate that community credit and banking needs, especially for low- and moderate-income

borrowers and areas, are being met. Primary credit needs include residential real estate lending and loans to small businesses. In addition, there is housing stock available for all credit worthy borrowers, including low- and moderate-income families and individuals. Other needs in Putnam County include a new medical center, nursing homes, and school facilities. The community contact stated that local banks have been generous with their assistance for all types of community programs.

Non-MSA AA:

FNB's non-MSA AA consists of all of Putnam and Hancock counties and contains 10 middle-income census tracts (CT) and 10 upper-income CTs. The 2000 U.S. Census estimated median family income for non-MSA areas in Ohio, updated in 2004, is \$43,801. The 2008 Department of Housing and Urban Development (HUD) estimated median family income for non-MSA areas in the state of Ohio is \$51,600. As of the 2000 U.S. Census, the population of the AA was 106,021 with 40,097 households and 42,538 housing units. Please refer to the various tables in the **CONCLUSIONS ABOUT PERFORMANCE CRITERIA** section of this document for relevant demographic data used to evaluate FNB's lending performance in this AA.

Competition for loans and deposits is strong in this AA. Four other local community banks and branches of seven larger community, regional, and/or large national financial institutions accept deposits and make loans in Putnam and Hancock Counties.

The economic conditions of the non-MSA AA have declined and are strained. As of August 2008, the unemployment rates for Putnam and Hancock Counties were 5.9% and 6.3%, respectively, increasing from 5.3 and 4.5%, respectively, in January 2006. During the same timeframe, the state of Ohio's unemployment rate rose from 6.0% in January 2006 to 7.1% in August 2008. The national unemployment rate rose from 5.1% in January 2006 to 6.1% in August 2008. The AA's largest employers by industry are manufacturing, retail trade, and state and local government. The major employers include Whirlpool Corp., Cooper Tire & Rubber Company, and the boards of education in each county.

MSA AA:

The MSA AA consists of all of Allen County and contains two low-income CTs, 11 moderate-income CTs, 15 middle-income CTs, and six upper-income CTs. The 2000 U.S. Census estimated median family income for the Lima, Ohio MSA, updated in 2004, is \$44,707. The 2008 HUD estimated median family income for the Lima, Ohio MSA is \$56,900. As of the 2000 Census, the population of this AA was 108,473 with 40,625 households and 44,245 housing units. Please refer to the various tables in the **CONCLUSIONS ABOUT PERFORMANCE CRITERIA** section of this document for pertinent demographic data used to evaluate FNB's lending performance in this AA.

Competition for loans and deposits is strong in the MSA AA. One other local community bank and branches of eight larger community, regional, and/or national financial institutions accept deposits and make loans in Allen County.

The economic conditions of this AA have also declined and are strained. Allen County's

unemployment rate has risen from 6.0% in January 2006 to 7.8% in August 2008. This increase in Allen County's unemployment rate exceeds the rise in the state of Ohio and national unemployment rates during the same timeframe (see the Description of the Non-MSA AA section for detail). The largest employers by industry are manufacturing, healthcare and social services, and retail trade. Major employers in the AA include BP Chemicals Inc., General Dynamics Corp., and Lima Memorial Health System.

SCOPE OF EXAMINATION

We performed full-scope reviews for both of the bank's AAs. To evaluate FNB's CRA lending performance, we focused on its: quarterly loan-to-deposit ratio since the last CRA examination and compared it to similarly situated banks; record of lending in its AAs; record of lending to borrowers of different income levels and businesses of different sizes within its AAs; and geographic distribution of lending within the MSA AA. We reviewed lending activity for all of 2006, 2007, and year-to-date 2008 (through September 29, 2008). Performance in the non-MSA AA was given the most consideration as 65%, based on number and 72%, based on total dollar amount, of loans originated during of FNB's evaluation period occurred in this AA. As illustrated by the following table, the bank's primary lending products, based on dollar amount, are residential real estate and commercial purpose loans (commercial and commercial real estate).

Primary Lending Products – 2006 through September 29, 2008		
Loan Types	% by Dollar Amount of Loans Originated during the evaluation period	% by Number of Loans Originated during the evaluation period
Residential Real Estate	46%	34%
Commercial Purpose	36%	20%
Total Primary Loan Types	82%	54%
Agricultural Purpose	13%	12%
Consumer Purpose	3%	22%
Other	2%	12%
Total Loan Products	100%	100%

Source: Bank Internally Supplied Systems Reports

To assess FNB's record of lending in its AAs, we randomly selected 20 loans from each of the bank's two primary loan types (40 total loans), regardless of location, originated during the evaluation period (2006 through year-to-date 2008). For the non-MSA AA, we sampled 20 loans from each primary loan type (40 loans total) made in this AA to evaluate the borrower distribution. For the MSA AA, we used the bank's Home Mortgage Disclosure Act (HMDA) data from 2006 through June 30, 2008, to evaluate the borrower and geographic distribution for residential real estate lending. In addition, we sampled 20 commercial purpose loans made in the MSA AA to assess borrower and geographic distribution for this lending product.

As FNB's non-MSA AA contains only middle- or upper-income CTs, an analysis of the geographic distribution of the bank's lending activity in the AA would not be meaningful and was not performed. Because of this fact and a majority of FNB's lending activity occurred in the non-MSA AA, the geographic distribution performance criteria is given less consideration than the other criterion for the bank's overall performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- FNB's overall CRA performance is satisfactory for both of its AAs.

Loan-to-Deposit Ratio

- FNB's loan-to-deposit (LTD) ratio is reasonable when compared with the performance of other similarly situated banks in its AA.

Since the prior CRA examination, FNB's quarterly LTD ratio averaged 73% over the last 25 quarters. This is within the quarterly LTD average range of 66% to 111% exhibited by similarly situated banks in the AAs. Similarly situated banks include four commercial banks taking deposits in FNB's AAs with total assets between \$55 million and \$620 million as of June 30, 2008. The bank's quarterly LTD ratio ranged from a low of 62% at September 30, 2003 to a high of 96% at December 31, 2002. At June 30, 2008, FNB's LTD ratio was 81%.

Lending in Assessment Area

- A substantial majority of the bank's lending activity occurs within its AA.

Based on the scope of this review as detailed on the prior page, FNB made 95%, based on number, and 97%, based on dollar amount, of loans within its AA during the evaluation period.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

- FNB's lending to borrowers of different income levels and business of different sizes reflects reasonable penetration to low- and moderate-income borrowers and small businesses (annual revenues of less than \$1 million). Performance in

the non-MSA AA is strong, and performance in the MSA AA is satisfactory.

Non-MSA AA

The distribution of residential real estate lending reflects excellent penetration to low- and moderate-income borrowers. While lending to low-income borrowers is slightly lower than the percentage of low-income families in this AA, the bank's lending to moderate-income borrowers exceeds the percentage of moderate-income families in this AA.

Lending to small businesses is reasonable considering the demographic data of the AA. While the distribution of commercial purpose loans to small businesses significantly exceeds the percentage of reported small businesses in this AA, a significant amount of reported businesses (34.89%) have "unavailable/unknown" revenue information in the demographic data.

Please refer to the following two tables for detail on FNB’s lending to borrowers of different income levels and businesses of different sizes in this AA.

Borrower Distribution of Residential Real Estate in the Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	* % of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	11.80%	10.00%	15.39%	20.00%	23.05	20.00%	49.76%	50.00%

* 4.79% of families live below the poverty line

Source: Loan Sample; 2000 U.S. Census data

Borrower Distribution of Commercial Purpose Loans in the Non-MSA AA			
Business Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/Unknown
% of AA Businesses	59.99%	5.12%	34.89%
% of Bank Loans in AA by #	90.00%	10.00%	0%
% of Bank Loans in AA by \$	84.95%	15.05%	0%

Source: Loan Sample; 2008 Dunn and Bradstreet

MSA AA

The distribution of residential real estate lending reflects reasonable penetration to low- and moderate-income borrowers. While lending to low-income borrowers is significantly lower than the percentage of low-income families in this AA, 9.63% of the families in this AA live below the poverty line and may have difficulty meeting credit standards. FNB’s lending to moderate-income borrowers approximates the percentage of moderate-income families in the AA.

Lending to small businesses is reasonable considering the demographic data of the AA. While the distribution of commercial purpose loans to small businesses exceeds the percentage of reported small businesses in this AA, the significant amount of reported businesses (36.24%) have “unavailable/unknown” revenue information in the demographic data.

Please refer to the following two tables for detail on the FNB’s lending to borrowers of different income levels and businesses of different sizes in this AA.

Borrower Distribution of Residential Real Estate in the MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	* % of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	19.16%	7.62%	18.83%	17.14%	22.82%	18.10%	39.19%	57.14%

* 9.63% of families live below the poverty line

Source: Data reported under HMDA; 2000 U.S. Census data

Borrower Distribution of Commercial Purposes Loans in the MSA AA			
Business Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/Unknown
% of AA Businesses	58.62%	5.14%	36.24%
% of Bank Loans in AA by #	70.00%	30.00%	0%
% of Bank Loans in AA by \$	53.55%	46.45%	0%

Source: Loan Sample; 2008 Dunn and Bradstreet

Geographic Distribution of Loans

- FNB’s geographic distribution of loans reflects reasonable dispersion to all areas within the MSA AA, including low- and moderate-income areas. Our analysis reflected lending in most income level tracts.

The distribution of residential real estate lending reflects satisfactory penetration to low- and moderate-income areas. The bank had no lending in low-income tracts and lending to moderate-income tracts was significantly lower than the demographics of this AA. However, FNB’s branch in this AA is located in the extreme northeast corner of Allen County, in an upper-income tract, and all the surrounding tracts are middle-income. The two low-income tracts and eleven moderate-income tracts are located about 17 miles from the branch and are in the center of Allen County in Lima, Ohio. A number of larger banks have significant market presence in Lima, Ohio, and aggressively market this area. In addition, FNB’s market share in Allen County (based on FDIC’s June 30, 2008 Deposit Market Share Report) is only 1.51% and is the lowest of all 10 banks in this county. Lastly, the CRA performance of other banks in this AA indicates that credit needs for low- and moderate-income areas are being met.

The distribution of commercial purpose lending reflects satisfactory penetration to low- and moderate-income area. While the bank had no lending in low-income tracts, its lending in moderate-income tracts exceeded the demographics of this AA. Performance in the low-income tracts is impacted by the same factors detailed above for residential real estate lending.

Geographic Distribution of Residential Real Estate Loans in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans	% of AA Owner-Occupied Housing	% of Number of Loans
	1.24%	0.00%	19.97%	14.29%	56.56%	46.67%	22.23%	39.05%

Source: data reported under HMDA; 2000 U.S. Census data.

Geographic Distribution of Commercial Purpose Loans in MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of Businesses	% of Number of Loans
	8.97%	0.00%	21.42%	25.00%	50.30%	55.00%	19.32%	20.00%

Source: loan sample; 2008 Dunn and Bradstreet

Responses to Complaints

Neither bank management nor our office received any complaints regarding FNB's CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.