Building on Shared Values

KISH BANCORP
expect more

2012 ANNUAL REPORT

2012

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KISH
expect more

www.KishBank.com

"**Connection...** is what our culture is – and always has been – about."

– William P. Hayes

William P. Hayes,
Chairman, President, and Chief Executive Officer

In January 2013, a research report was released on the banking industry, prepared in collaboration with Harris Interactive, entitled "State of the Bank." Aiming to take some "vital signs" of the industry based on a variety of indicators that are primarily qualitative and centered on the customer experience, the report sums up its findings as demonstrating a state of "disconnect between the banking industry and its customers."

Reading that assessment of our industry brought home for me once again the beauty of Kish Bank as an institution that, after more than 100 successful years, continues to operate independently, maintaining as our primary source of strength an unwavering focus on customer and community, built on a solid base of shareholder loyalty. At Kish, we're far from being in a state of disconnect with our customers. Connection, rather, is what our culture is—and always has been—about.

Our connection with our customer and community is what allows us to be a positive force for local economic change and development, and for the continued growth and prosperity of our region. It puts us in a position of strength as we look ahead toward our planned efforts to pursue new horizons of opportunity—all while remaining unwaveringly focused on our core, community-centered values.

Just as with the preceding three years, Kish Bancorp began 2012 with a principal focus on risk assessment and risk reduction. The Great Recession, which began in late 2007 and lasted until 2009, and the stubbornly slow recovery that ensued, had created significant and sustained headwinds for the economy and for banking. Regulators had responded to the difficult environment by intensifying their focus on bank oversight and requiring more formal actions where there were areas of concern. Risk management was the watchword that guided the actions of our industry as well as the Corporation.

At the outset of 2012, Kish Bank was intently concentrating on several remaining risk factors that were critical to addressing the issues set forth in a regulatory agreement entered into in February 2011. The central focus of this effort was on problem loan management and the level of classified loans. By mid-year 2012, management had documented substantial completion of these as well as all other matters under the agreement. While final validation of that completion would await a regulatory examination in September and final review in December, we were pleased during the latter half of the year to return our full attention and resources to serving our customers and growing our business. We could do so with the confidence that our team had faced this period of adversity and responded to the challenge with a dedication and professionalism that demonstrated its readiness to perform at the next level. It was a stronger, more capable team that was ready to continue its campaign of "Building to a Billion." We had also demonstrated our continuing commitment to our customers and communities.

In this context, we are pleased to report that profitable operations continued in 2012, with net income of $3.630 million, earnings per share of $6.10, and return on average shareholders' equity of 8.01 percent. While net income was equal to the prior year, the additional common stock raised in late 2011 and early 2012 of $3.8 million served to depress both EPS and ROE by approximately 10 percent. Higher capital levels were necessary and prudent during the period of elevated risk. As the Corporation's risk parameters improve, strategies to either employ the additional capital or return it to shareholders are under active evaluation. We believe ROE and EPS growth will continue to be the key performance measures that drive long-term shareholder performance. Our goal is to live up to a reputation for financial performance that has merited, for a sixth consecutive year, a position among the top 200 Community Banks in the U.S. Dividends per share were sustained at $3.24 per share for the year, although, based on the increase in outstanding shares, total dividends paid grew by 11.3 percent to $1.96 million from $1.76 million in 2011. The dividend per share rate has been sustained throughout the recession.

Net interest income after provision for loan losses during 2012 was $16.546 million, an increase of $104 thousand, or 0.6 percent, compared to 2011. This modest expansion reflected the slow growth in earning assets and a contraction in the net interest margin as new and existing borrowers moved to refinance existing debt at significantly lower rates. The yield on the securities portfolio declined as new investments also reflected the low yields created by the Fed's sustained easing of monetary policy. As reported in the quarterly statements, net interest income in the fourth quarter of 2012 was $4.213 million, an increase of $45 thousand, or 1.1 percent, compared to $4.168 million for the fourth quarter of 2011.

Contributing positively to the change in net income was a reduction in the provision for potential loan losses. In 2012, $270 thousand was set aside from earnings through the loan loss provision, as compared to $800 thousand in 2011. As the level of classified loans declined, other loan quality metrics remained positive. At year end, the allowance for loan losses was $6.867 million, or 1.92 percent of total loans outstanding. The Bank's reserves continue to reflect a strengthened balance sheet that protects Kish from unforeseen negative developments in the economy that may impact the Bank's loan portfolio. Actual charge-offs for the year remained modest, and the Bank's delinquent loans have been sustained at exceptionally low levels.

We are also pleased to note that, as we enter 2013, demand for new credit by businesses has begun to accelerate, a trend that is expected to continue with further economic recovery and improving business confidence.

Noninterest income declined $1.0 million, or 12.57 percent, to $7.0 million for 2012 from $8.0 million in 2011. 2011 results were skewed by the addition of $2.1 million of business property income related to a business loan workout with ongoing operations. Excluding this revenue from 2011 noninterest income, as well as investment securities gains, core noninterest income increased by $1.0 million, or 20.1 percent, driven primarily by excellent strength in residential mortgage origination activities, sustained growth in retail deposit service fees and stronger revenues from our wealth management unit.

Noninterest expense was $19.4 million during 2012, a decrease of $1.0 million, or 4.9 percent, from $20.4 million in 2011. The primary driver of the decrease in 2012 expenses was the elimination of the cost of managing the business property described in the previous paragraph, as well as a reduction in the cost of federal deposit insurance.

In addition to capital investments to prepare for the future that are reflected in these financial results, 2012 also witnessed several key additions to the Kish team that will further enhance our customer-focused culture and accelerate progress toward Kish's long-term corporate goals:

- **Walter Kay, Senior Vice President and Senior Information Officer**, brings to our team more than 20 years of experience in senior-level leadership of enterprise information technology operations in a variety of industries, including banking.
- **William Hoyne, Executive Vice President and Chief Credit Officer**, is an industry veteran with more than 45 years in banking. He brings to Kish a distinguished track record of successfully managing the integrity and profitability of lending portfolios, both in strong economies and challenging times.

Last but certainly not least, we are also pleased to welcome to our "extended team" one of the most noted leaders of the Central Pennsylvania community. Coquese Washington, Head Coach of the Penn State Lady Lion basketball team, is a uniquely qualified advocate for "the Kish way of doing business." In her early interactions with Kish, Coach Washington developed an appreciation of the core values that she shares with us, including a commitment to excellent performance and to the importance of serving as a leader and mentor in the community. This appreciation not only motivated her to choose Kish as her bank, but also to agree to serve as a "Kish ambassador."

It is an honor to have Coach Washington on board, and we look forward to seeing the impact that her high visibility, leadership and representation will have on deepening the appreciation of the value that Kish brings to our region.

As we conclude this review of another successful year for Kish Bank and look ahead to a promising future, we gratefully acknowledge the continued support and encouragement of you, our shareholders. As investors, you contribute in so many ways to the vitality of our community. It is your loyalty and confidence that has helped to define the unique culture and values of Kish Bank and will continue to do so as we work together to achieve our goals and advance toward the exciting new horizons that await us.

Sincerely,

William P. Hayes

William P. Hayes
Chairman, President, and Chief Executive Officer

Bill Hayes and Coquese Washington
Introducing our new Kish ambassador

2012

A Year of Unwavering Focus

A Focus On Our Community

At Kish, community focus is a strategic objective. From top to bottom, we're a team that takes pride in putting our time and resources to work to build better communities. A major part of this unwavering focus is realized in our direct role as an institution that works closely with the individuals, entrepreneurs, and business leaders that make our communities so vibrant, meeting their financial needs at a highly personalized level.

But it doesn't stop there. In 2012, we also moved our longstanding community service commitment to the next level by forming regional groups that integrate community involvement into our official operations: the Kish Community Action Teams (CATs).

Activities under the CAT umbrella are broad and far-reaching. They encompass, for example, our sponsorship and engagement in causes like fighting breast cancer through our Power of Pink program in partnership with the Pennsylvania Pink Zone and the Penn State Lady Lion Basketball Team; an initiative to send bankers into classrooms to help young students get a head start on a lifetime of good financial habits through the Teach Children to Save Program; and participation in a range of other community activities, including Habitat for Humanity and United Way.

Our CAT program also supports the efforts of Kish associates to pursue their passions to serve individually, applying their talents, interests, energies, and drive to community involvement as EMTs, musicians, coaches, pet rescuers, and more. After just one year, the CATs already have become a driving force in making our service commitment more visible and in shaping our internal culture and external impact.

A Focus On Our Clients

One of the factors that makes Kish such a rewarding institution to be involved with is our ability to serve clients in ways that make an important difference in their lives—from the breadth and depth of products and services from Kish Bank and Kish Financial Solutions that allow us to help clients as they work toward their goals and dreams… to the comprehensive coverages available to Kish Insurance Specialists as they work with clients to protect what matters most to them… to the deep, first-hand expertise of Kish Travel Specialists that enables them to help clients enjoy more memorable travel experiences.

Bruce, Kym & Ryan Burke
Owners, One on One Fitness

Left:
Oksana DeArment
Kish associate, teaching children to save

Right:
Sandy Berardis, Greg Hayes, John Arrington
Kish associates building a home for Habitat for Humanity

To further enhance our service across the organization, we strengthened our team with several key hires. Natalie Xanthopoulous, Insurance Specialist, focuses on delivering exemplary service to insurance clients as our insurance presence continues to grow, especially in the Centre County area. Walter Kay, Senior Vice President and Senior Information Officer, applies his comprehensive information technology expertise to ensure that Kish will always meet the highest standards of security and privacy of clients' personal and financial information. Walter also leads the company's initiative to grow the customer base through the application of data and information systems.

In keeping with our unwavering focus on fulfilling client needs, we engaged the services of our marketing consultant to help us reenergize Kish Travel with more innovative approaches to service and elevate further the travel experience we provide our clients. Carol Herrmann, who joined Kish in 2011, will lead this change in her new role as Kish Travel CEO.

Enhancing our facilities was another priority in 2012. Kish Bank has been well received in McVeytown, having first opened its doors there more than 15 years ago. Since then, our McVeytown business has grown along with our clients' needs for the full range of financial and related services Kish provides. In February 2012, we broke ground on a beautiful new branch facility to better serve these growing needs. Ten months later, the doors of the new McVeytown branch opened, offering the added conveniences of off-street parking, ATM service, and a two-lane drive-thru. This updated facility creates yet another opportunity to further enhance service to existing clients, to introduce more individuals and organizations to the full breadth of Kish services, and to strengthen our signature "expect more" culture and approach to doing business.

The new McVeytown Branch

Left:
Kish Travel's Disney Night
The Tone Rangers serenade guests with Disney tunes

Below:
Coquese Washington
Head Coach, Penn State Lady Lion Basketball Team

A Focus On Communicating the Unique Value of Kish

As a shareholder, you already know that Kish is much more than just another bank. We're a distinctively diversified financial institution that meets not only the deposit and credit needs of our clients, but also provides a suite of complementary services in travel, wealth management, insurance, and more. Add to that mix our unwavering commitment to our clients and our communities, and you have a highly effective client-centric organization.

To continue to strengthen the community's understanding of our mission and all Kish does to fulfill it, we proudly brought on board our new Kish ambassador, Coquese Washington, Head Coach of the Penn State Lady Lion Basketball Team and a client who chose Kish Bank based on values she shares with us. We look forward to engaging her in a full range of internal and external activities throughout the coming years.

2012, a year in which we celebrated the 100th anniversary of our charter, has given us the opportunity to reflect on how our community bank has enjoyed the privilege of helping the individuals, businesses, and organizations in our markets survive, thrive, and maintain stability while navigating through a century of changing financial tides.

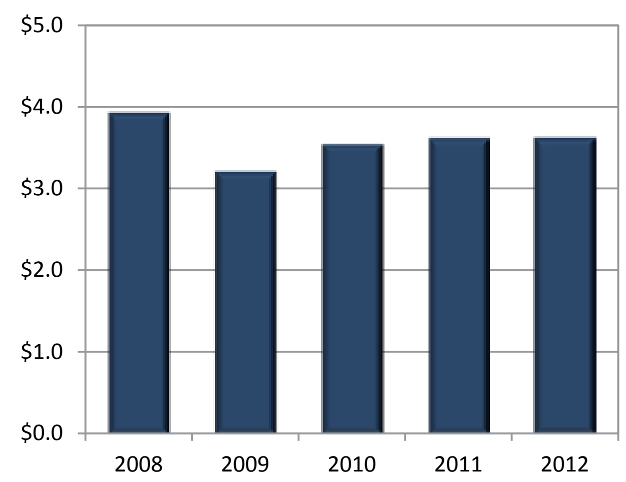
Today, our community impact is stronger than ever. Working together with the great people and organizations we serve toward full realization of the values we share remains our primary reason for being. This is reflected not only in the value of the financial services we provide, but also in our continued community support and involvement.

Five Year Summary

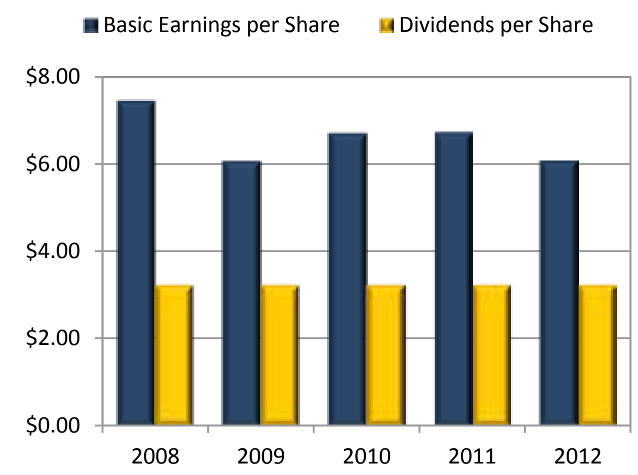
FOR THE YEAR	2012	2011	2010	2009	2008
Net Income	$3,629,794	$3,631,298	$3,556,124	$3,213,423	$3,937,791
Net Income Before Taxes	4,168,872	4,070,114	4,026,669	3,586,370	4,817,481
Total Dividends Declared	1,960,051	1,760,493	1,739,714	1,721,575	1,713,474
AT YEAR END (IN 000's)					
Total Assets	$557,575	$560,069	$556,623	$527,396	$476,263
Total Loans (Net)	351,040	362,163	367,306	367,824	333,434
Total Deposits	460,450	454,660	446,002	407,721	352,729
Stockholders' Equity	46,252	43,517	35,729	34,062	31,302
Loan Loss Reserve	6,867	7,043	6,245	5,397	3,305
Net Loan Losses (Recoveries)	445	3	1,001	252	(5)
RATIO ANALYSIS					
Return on Average Assets*	0.65%	0.65%	0.65%	0.64%	0.84%
Return on Average Equity*	8.61%	9.82%	10.31%	9.73%	12.75%
Dividend Declared/Net Income	54.00%	48.48%	48.92%	53.57%	43.51%
Loan/Deposits	76.24%	79.66%	82.36%	90.21%	94.53%
Primary Capital/Total Assets	9.53%	9.03%	7.54%	7.48%	7.27%
Total Capital/Risk Weighted Assets	14.05%	13.85%	11.67%	11.26%	10.40%
Loan Loss Reserve/Loans	1.92%	1.91%	1.67%	1.44%	0.98%
Net Loan Losses to Total Loans (Net)	0.12%	0.00%	0.27%	0.07%	0.00%
PER SHARE DATA					
Basic Earnings	$6.10	$6.74	$6.72	$6.08	$7.47
Fully Diluted Earnings	6.09	6.72	6.68	6.07	7.47
Dividends Paid	3.24	3.24	3.24	3.24	3.24
Equity (Book Value)	76.20	72.95	66.54	63.61	59.04
Equity Plus Loan Loss Reserve	87.51	84.75	78.17	73.69	65.27
Average Shares Outstanding (#)	594,611	538,735	529,343	528,125	527,044

* Due to fluctuations in the mark to market valuation for investment securities, we do not include them in our total for average assets and average equity.

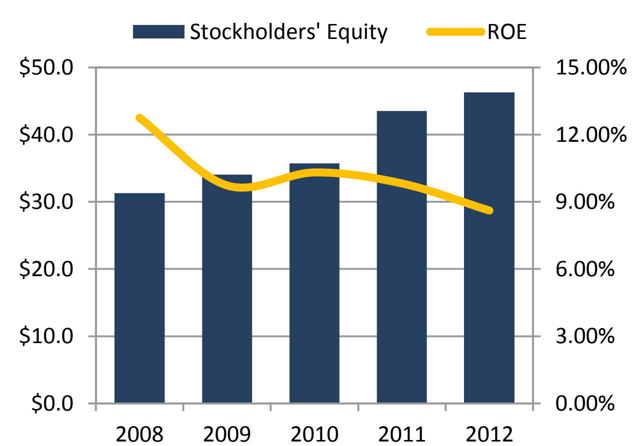
Net Income (in millions)



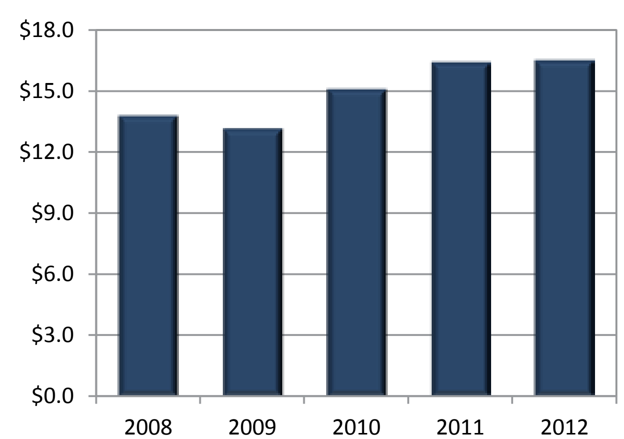
Earnings and Dividends per Share



Stockholders' Equity (in millions) and ROE

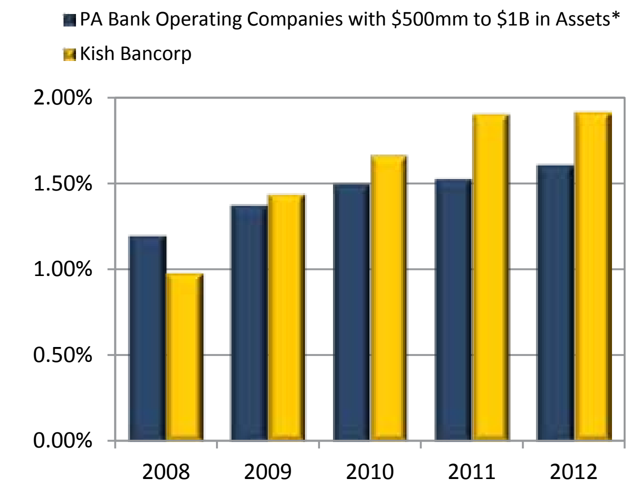


Net Interest Income After Provision (in millions)



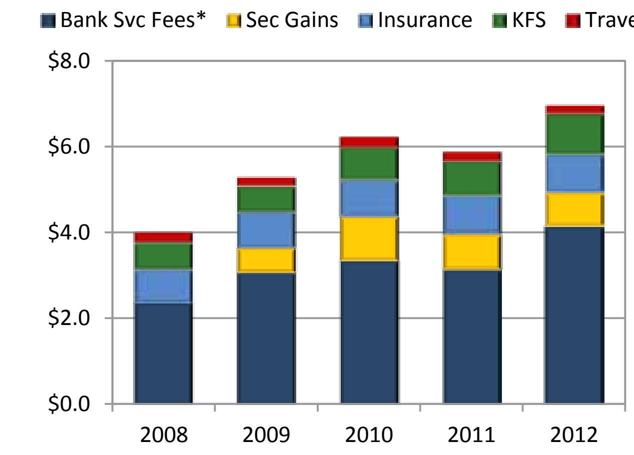
Financial Highlights

Loan Loss Reserve/Loans



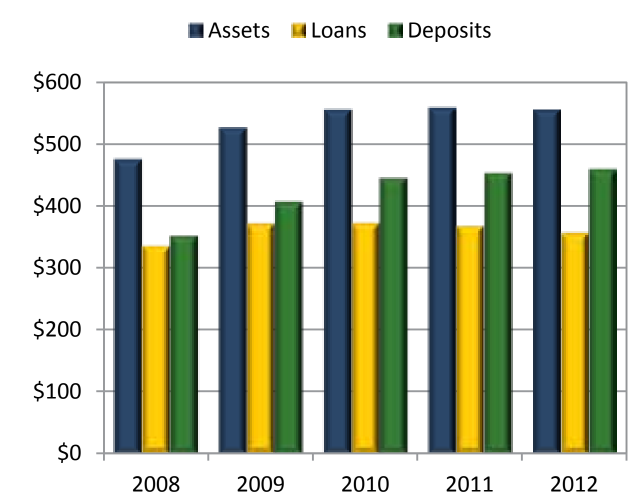
** Source - SNL Financial, median values*

Total Noninterest Income and Components (in millions)

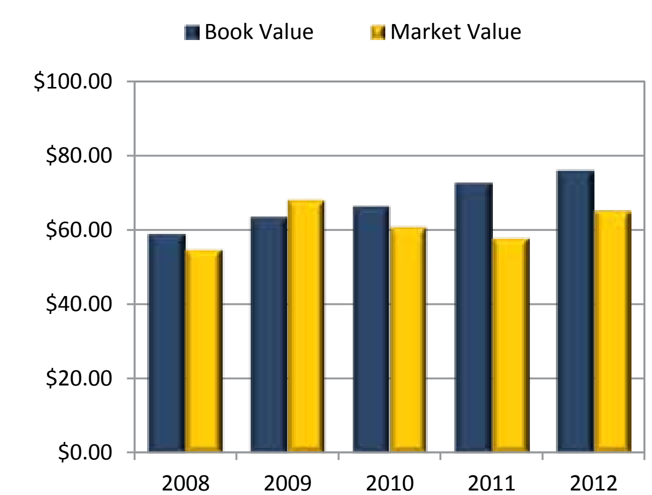


** Excluding unrelated business income*

Balance Sheet (in millions)



Stock Valuation (per share)



Independent Auditor's Report
Board of Directors and Stockholders,
Kish Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Kish Bancorp, Inc. and subsidiaries which comprise the consolidated balance sheet as of December 31, 2012 and 2011; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the 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.

Auditor's 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 auditor's 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kish Bancorp, Inc. and subsidiaries as of December 31, 2012 and 2011, 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.

S.R. Snodgrass, A.C.

Wexford, Pennsylvania
March 20, 2013

Kish Bancorp, Inc.
Consolidated Audited Financial Statements
December 31, 2012

Page Number

	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 8,944,401	$ 9,592,946
Interest-bearing deposits with other institutions	14,848,221	31,588,825
Cash and cash equivalents	23,792,622	41,181,771
Certificates of deposit in other financial institutions	2,374,375	1,619,833
Investment securities available for sale	136,214,232	114,170,492
Loans held for sale	584,380	1,401,376
Loans	357,907,840	369,205,842
Less allowance for loan losses	6,867,370	7,042,911
Net loans	351,040,470	362,162,931
Premises and equipment	15,078,798	14,211,627
Goodwill	1,668,699	1,668,699
Regulatory stock	4,794,900	4,042,400
Bank-owned life insurance	12,517,831	12,097,673
Accrued interest and other assets	9,508,580	7,512,072
TOTAL ASSETS	$ 557,574,887	$ 560,068,874
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 55,046,956	$ 54,985,004
Interest-bearing demand	9,658,721	8,021,861
Savings	47,336,921	40,358,678
Money market	189,715,682	177,667,176
Time	158,691,542	173,627,594
Total deposits	460,449,822	454,660,313
Short-term borrowings	4,157,290	5,696,162
Other borrowings	42,121,094	52,049,918
Accrued interest and other liabilities	4,594,956	4,145,495
TOTAL LIABILITIES	511,323,162	516,551,888
STOCKHOLDERS' EQUITY		
Preferred stock, $.50 par value; 500,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.50 par value; 2,000,000 shares authorized, 674,374 and 663,791 shares issued	337,187	331,896
Additional paid-in capital	3,376,514	2,979,269
Retained earnings	45,323,860	43,654,117
Accumulated other comprehensive income	2,907,315	2,466,659
Treasury stock, at cost (67,380 and 67,237)	(5,693,151)	(5,914,955)
TOTAL STOCKHOLDERS' EQUITY	46,251,725	43,516,986
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 557,574,887	$ 560,068,874

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2012	2011
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 17,767,995	$ 19,773,794
Exempt from federal income tax	956,766	1,030,427
Interest and dividends on investment securities:		
Taxable	2,077,035	1,832,161
Exempt from federal income tax	1,180,783	1,336,001
Interest-bearing deposits with other institutions	128,265	83,224
Other dividend income	102,529	63,870
Total interest and dividend income	22,213,373	24,119,477
INTEREST EXPENSE		
Deposits	3,412,997	4,266,998
Short-term borrowings	94,657	203,640
Other borrowings	1,889,289	2,406,192
Total interest expense	5,396,943	6,876,830
NET INTEREST INCOME	16,816,430	17,242,647
Provision for loan losses	270,000	800,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,546,430	16,442,647
NONINTEREST INCOME		
Service fees on deposit accounts	1,573,098	1,483,286
Investment securities gains, net	797,324	840,576
Investment securities impairment loss	-	(8,728)
Gain on sale of loans, net	1,901,882	797,914
Earnings on bank-owned life insurance	416,414	416,069
Insurance commissions	888,876	886,733
Travel agency commissions	194,174	236,580
Business property income	-	2,059,377
Other	1,207,008	1,270,226
Total noninterest income	6,978,776	7,982,033
NONINTEREST EXPENSE		
Salaries and employee benefits	10,449,906	9,969,960
Occupancy and equipment	2,435,665	2,847,007
Data processing	1,683,149	1,574,312
Professional fees	392,961	356,458
Advertising	414,113	436,651
Federal deposit insurance	743,008	1,074,877
Loss on sale of other assets	-	353,018
Other	3,237,532	3,742,283
Total noninterest expense	19,356,334	20,354,566
Income before income taxes	4,168,872	4,070,114
Income taxes	539,078	438,816
NET INCOME	$ 3,629,794	$ 3,631,298
EARNINGS PER SHARE		
Basic	$ 6.10	$ 6.74
Diluted	6.09	6.72

See accompanying notes to the consolidated financial statements.

	Year Ended December 31, 2012	2011
Net income	$ 3,629,794	$ 3,631,298
Other comprehensive income:		
Securities available for sale:		
Unrealized holding gains on available-for-sale securities	1,464,984	4,532,228
Tax effect	(498,095)	(1,540,957)
Reclassification adjustment for net gains realized in net income	(797,324)	(840,576)
Tax effect	271,091	285,795
Impairment losses included in net income	-	8,728
Tax effect	-	(2,968)
Total other comprehensive income	440,656	2,442,250
Total comprehensive income	$ 4,070,450	$ 6,073,548

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2010	$ 305,000	$ 114,999	$ 41,783,312	$ 24,409	$ (6,498,468)	$ 35,729,252
Net income			3,631,298			3,631,298
Other comprehensive income, net of tax				2,442,250		2,442,250
Stock option compensation expense		42,100				42,100
Purchase of shares by restricted stock plan		(498,911)			498,911	-
Forfeiture of shares by restricted stock plan		27,405			(27,405)	-
Amortization of unearned restricted stock plan shares		193,319				193,319
Cash dividends ($3.24 per share)			(1,760,493)			(1,760,493)
Sale of new issue common stock (53,791 shares)	26,896	3,150,001				3,176,897
Purchase of treasury stock (383 shares)					(23,227)	(23,227)
Sale of treasury stock (1,411 shares)		(49,644)			135,234	85,590
Balance, December 31, 2011	331,896	2,979,269	43,654,117	2,466,659	(5,914,955)	43,516,986
Net income			3,629,794			3,629,794
Other comprehensive income, net of tax				440,656		440,656
Stock option compensation expense		46,863				46,863
Purchase of shares by restricted stock plan		(272,045)			272,045	-
Forfeiture of shares by restricted stock plan		45,002			(45,002)	-
Amortization of unearned restricted stock plan shares		203,857				203,857
Cash dividends ($3.24 per share)			(1,960,051)			(1,960,051)
Sale of new issue common stock (10,583 shares)	5,291	619,766				625,057
Purchase of treasury stock (4,419 shares)					(269,245)	(269,245)
Sale of treasury stock (2,719 shares)		(246,198)			264,006	17,808
Balance, December 31, 2012	$ 337,187	$ 3,376,514	$ 45,323,860	$ 2,907,315	$ (5,693,151)	$ 46,251,725

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

	Year Ended December 31, 2012	2011
OPERATING ACTIVITIES		
Net income	$ 3,629,794	$ 3,631,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	270,000	800,000
Investment securities gains, net	(797,324)	(840,576)
Investment securities impairment loss	-	8,728
Proceeds from sale of loans held for sale	47,056,498	24,715,642
Origination of loans held for sale	(44,337,620)	(24,400,762)
Gain on sales of loans, net	(1,901,882)	(797,914)
Depreciation, amortization, and accretion	1,112,213	1,557,325
Deferred income taxes	31,885	(104,051)
Decrease in accrued interest receivable	282,921	167,919
Decrease in accrued interest payable	(182,013)	(101,444)
Earnings on bank-owned life insurance	(416,414)	(416,069)
Decrease in prepaid federal deposit insurance	709,737	1,035,498
Loss on sale of other assets	-	353,018
Other, net	(364,059)	143,275
Net cash provided by operating activities	5,093,736	5,751,887
INVESTING ACTIVITIES		
Maturities of certificates of deposit	250,000	1,114,261
Purchase of certificates of deposit	(1,004,542)	-
Investment securities available for sale:		
Proceeds from sale of investments	21,211,034	53,533,950
Proceeds from repayments and maturities	28,756,606	21,467,880
Purchases	(72,690,346)	(64,388,175)
Decrease in loans, net	10,025,751	7,038,702
Purchase of regulatory stock	(962,436)	(213,000)
Redemption of regulatory stock	206,000	332,400
Purchase of premises and equipment	(1,901,683)	(1,516,320)
Purchase of bank-owned life insurance ("BOLI")	-	(16,000)
Proceeds from sale of other real estate owned	894,098	789,466
Net cash provided by (used for) investing activities	(15,215,518)	18,143,164
FINANCING ACTIVITIES		
Increase in deposits, net	5,786,760	8,658,327
Decrease in short-term borrowings, net	(1,538,872)	(1,912,483)
Proceeds from other borrowings	2,000,000	2,712,000
Repayments of other borrowings	(11,928,824)	(13,533,222)
Proceeds from sale of common stock	625,057	3,176,897
Purchases of treasury stock	(269,245)	(23,227)
Proceeds from sale of treasury stock	17,808	85,590
Cash dividends	(1,960,051)	(1,760,493)
Net cash used for financing activities	(7,267,367)	(2,596,611)
Increase (decrease) in cash and cash equivalents	(17,389,149)	21,298,440
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	41,181,771	19,883,331
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 23,792,622	$ 41,181,771
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 5,578,956	$ 6,978,272
Income taxes	685,000	482,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	$ 826,710	$ 54,841
Investment sales not settled	2,066,250	-

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

Kish Bancorp, Inc. (the "Company") is a diversified financial services organization whose principal activity is the ownership and management of its subsidiaries, Kishacoquillas Valley National Bank (the "Bank"), Kish Travel Services, Inc., and the Bank's subsidiaries, Kish Agency, Inc. and Tri Valley Properties, LLC. The Company generates commercial and industrial, agricultural, commercial mortgage, residential real estate, and consumer loans and deposit services to its customers located primarily in central Pennsylvania and the surrounding areas. The Bank operates under a national bank charter and provides full banking services. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law. Kish Agency, Inc. provides insurance products and services. Kish Travel Services, Inc. is a Pennsylvania business established to provide travel services to its customers. Tri Valley Properties, LLC is a limited liability company established to hold and manage real estate and other property acquired through debts previously contracted.

The consolidated financial statements include the accounts of Kish Bancorp, Inc., and its subsidiaries, Kishacoquillas Valley National Bank and Kish Travel Services, Inc., after elimination of all intercompany transactions.

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles ("GAAP") and to general practice within the banking industry. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the Consolidated Balance Sheet date and revenues and expenses for that period. Actual results could differ from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity, available for sale, or trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Debt securities which are held principally as a source of liquidity are classified as available for sale. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings. Realized securities gains and losses are computed using the specific identification method. The Company does not have trading securities or securities held to maturity as of December 31, 2012 and 2011. Interest and dividends on investment securities are recognized as income when earned.

Securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Federal Reserve Bank represents ownership in institutions that are wholly owned by other financial institutions. These equity securities are accounted for at cost and are shown separately on the Consolidated Balance Sheet.

The Bank is a member of the FHLB and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Loans

Loans are reported at their principal amount net of the allowance for loan losses and deferred origination fees or costs. Interest on loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectability of additional interest. Interest previously accrued but deemed uncollectible is deducted from current interest income. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of such principal. Nonaccrual loans will generally be put back on accrual status after demonstrating six consecutive months of no delinquency.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized is accounted for as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

In general, fixed rate, permanent residential mortgage loans originated by the Bank are held for sale and are carried in the aggregate at the lower of cost or market. The Bank sells these loans to various other financial institutions. Currently, the Bank retains the servicing of those loans sold to the FHLB and releases the servicing of loans sold to all other institutions.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Loan Losses

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to change in the near term.

Impaired loans are those for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates commercial and industrial, agricultural, state and political subdivisions, commercial real estate, and all troubled debt restructuring loans for possible impairment. Consumer and residential real estate loans are also evaluated if part of a commercial lending relationship. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogenous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the Consolidated Statement of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years for furniture, fixtures, and equipment, and 31 to 39½ years for building premises and leasehold improvements. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Goodwill

The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts.

Bank-Owned Life Insurance ("BOLI")

The Company purchased life insurance policies on certain key employees. BOLI is recorded at its cash surrender value, or the amount that can be realized.

Real Estate Owned

Real estate acquired by foreclosure is included with other assets on the Consolidated Balance Sheet at the lower of the recorded investment in the property or its fair value less estimated costs of sale. Prior to foreclosure, the value of the underlying collateral is written down by a charge to the allowance for loan losses if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included in other noninterest expense.

Treasury Stock

Treasury stock is carried at cost. Sales are determined by the first-in, first-out method.

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expense amounted to $414,113 and $436,651 for 2012 and 2011, respectively.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options, warrants, and convertible securities are adjusted in the denominator.

Stock Options

As of December 31, 2012 and 2011, the Company recorded compensation expense of $46,863 and $42,100 related to share-based compensation awards. At December 31, 2012, there was approximately $18,029 in unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next two years.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Stock Options (Continued)

For purposes of computing stock compensation expense, the Company estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

Grant Year	Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility	Expected Life (in Years)
2012	5.31 %	2.23 %	12.25 %	10.00
2011	5.79 %	3.27 %	17.71 %	10.00

The weighted-average fair value of each stock option granted for 2012 and 2011 was $1.90 and $5.01, respectively. There were no stock options exercised during the years ended December 31, 2012 and 2011.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company retains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. The Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. MSRs are a component of accrued interest and other assets on the Consolidated Balance Sheet. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made with limited recourse. For the years ended December 31, 2012 and 2011, the Company recorded gross servicing rights of $671,967 and $470,047 with a reserve for impairment of $315,477 and $150,322, respectively.

Transfer of 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 Company; (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions "Cash and due from banks" and "Interest-bearing deposits with other institutions" that have original maturities of less than 90 days.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's format. Such reclassifications did not affect net income or stockholders' equity.

2. **EARNINGS PER SHARE**

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	2012	2011
Weighted-average common shares outstanding	672,382	616,925
Average treasury stock shares	(67,303)	(69,675)
Average unearned nonvested restricted share plan shares	(10,468)	(8,515)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	594,611	538,735
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	272	710
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	923	1,291
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	595,806	540,736

Options to purchase 68,626 and 48,620 shares of common stock at a price of $51.50 to $96.75, as of December 31, 2012 and 2011, and 8,801 and 4,956 shares of restricted stock ranging in price from $51.00 to $76.35, respectively, were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

3. **INVESTMENT SECURITIES AVAILABLE FOR SALE**

The amortized cost and fair value of investment securities available for sale are as follows:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 4,992,428	$ 114,029	$ (27,397)	$ 5,079,060
U.S. government agency securities	44,667,778	680,635	(74,593)	45,273,820
Obligations of states and political subdivisions	48,039,353	3,241,734	(50,758)	51,230,329
Corporate securities	4,015,236	9,806	(408,537)	3,616,505
Mortgage-backed securities in government-sponsored entities	29,931,421	872,420	(7,567)	30,796,274
Total debt securities	131,646,216	4,918,624	(568,852)	135,995,988
Equity securities in financial institutions	162,990	55,254	-	218,244
Total	$ 131,809,206	$ 4,973,878	$ (568,852)	$ 136,214,232

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 23,682,923	$ 688,742	$ (50)	$ 24,371,615
Obligations of states and political subdivisions	51,204,454	3,054,779	(36,077)	54,223,156
Corporate securities	3,365,045	-	(463,700)	2,901,345
Mortgage-backed securities in government-sponsored entities	31,861,904	451,776	(3,093)	32,310,587
Total debt securities	110,114,326	4,195,297	(502,920)	113,806,703
Equity securities in financial institutions	318,800	56,725	(11,736)	363,789
Total	$ 110,433,126	$ 4,252,022	$ (514,656)	$ 114,170,492

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2012 and 2011.

2012	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasury securities	$ 3,010,780	$ (27,397)	$ -	$ -	$ 3,010,780	$ (27,397)
U.S. government agency securities	12,999,055	(74,593)	-	-	12,999,055	(74,593)
Obligations of states and political subdivisions	3,206,412	(50,758)	-	-	3,206,412	(50,758)
Corporate securities	877,282	(8,571)	1,567,534	(399,966)	2,444,816	(408,537)
Mortgage-backed securities in government-sponsored entities	1,079,860	(7,567)	-	-	1,079,860	(7,567)
Total	$ 21,173,389	$ (168,886)	$ 1,567,534	$ (399,966)	$ 22,740,923	$ (568,852)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

2011	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 999,950	$ (50)	$ -	$ -	$ 999,950	$ (50)
Obligations of states and political subdivisions	321,942	(82)	436,796	(35,995)	758,738	(36,077)
Corporate securities	2,315,813	(81,732)	585,532	(381,968)	2,901,345	(463,700)
Mortgage-backed securities in government-sponsored entities	6,745,746	(3,093)	-	-	6,745,746	(3,093)
Total debt securities	10,383,451	(84,957)	1,022,328	(417,963)	11,405,779	(502,920)
Equity securities in financial institutions	167,456	(11,736)	-	-	167,456	(11,736)
Total	$ 10,550,907	$ (96,693)	$ 1,022,328	$ (417,963)	$ 11,573,235	$ (514,656)

U.S. treasury securities. The unrealized loss on two investments in U.S. treasury notes was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2012.

U.S. government agency securities. The unrealized loss on ten investments in U.S. government obligations and direct obligations of U.S. government agencies was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2012.

Obligations of states and political subdivisions. The Company's unrealized losses on seven municipal bonds relates to investments within the governmental service sector. The unrealized losses are primarily caused by recent decreases in profitability and profit forecasts, in general, by industry analysts. The contractual terms of these investments do not permit the issuer to settle the security at a price less than the par value of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their par value, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2012.

Corporate securities. The Company had unrealized losses on investments in six different debt securities with an aggregate fair value of $2,444,816 at December 31, 2012. The unrealized losses on these debt securities amounted to $408,537 at December 31, 2012. Due to dislocations in the credit markets broadly, and the lack of trading and new issuances, market price indications generally reflect the lack of liquidity in the market. Prices on debt securities were calculated by a third-party valuation company. The valuation methodology is based on the premise that the fair value of the security's collateral should approximate the fair value of its liabilities. Based on cash flow forecasts for the securities, the Company expects to recover the remaining amortized cost of these securities.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

Furthermore, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, it does not consider these investments to be other-than-temporarily impaired at December 31, 2012.

Mortgage-backed securities in government-sponsored entities. The unrealized losses on the Company's investment in one mortgage-backed securities were caused by interest rate increases. The Company purchased this investment at a premium relative to its face amount, and the contractual cash flows of the investment are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the security would not be settled at a price less than the amortized cost basis of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2012.

Equity securities. The Company's investments in three marketable equity securities consist primarily of common stock of entities in the financial services industry. As of December 31, 2011, the Company recognized in earnings impairment charges of $8,728 on one investment in common stock of a community bank, resulting from the duration and extent to which the market value has been less than the cost and the performance of the financial institution over the past two years. In 2012, the Company sold this security for a gain of $26,743. As of December 31, 2012, the Company had no equity securities at an unrealized loss position.

The amortized cost and fair value of debt securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,263,153	$ 2,299,637
Due after one year through five years	18,172,632	18,720,045
Due after five years through ten years	46,546,919	48,547,217
Due after ten years	64,663,512	66,429,089
Total	$ 131,646,216	$ 135,995,988

Investment securities with a carrying value of $75,688,114 and $79,829,596 at December 31, 2012 and 2011, respectively, were pledged to secure deposits and other purposes as required by law.

The following is a summary of proceeds received, gross gains, and gross losses realized on the sale of investment securities available for sale for the years ended December 31:

	2012	2011
Proceeds from sales	$ 21,211,034	$ 53,533,950
Gross gains	814,552	939,368
Gross losses	17,228	98,792
Other-than-temporary impairment loss	-	8,728

4. LOANS

Major classifications of loans are summarized as follows:

	2012	2011
Commercial real estate	$ 113,748,488	$ 120,270,997
Commercial and industrial	77,537,911	79,754,672
Agricultural	19,442,003	19,294,360
State and political subdivisions	24,657,876	25,125,149
Consumer	45,091,647	45,026,255
Residential real estate	77,429,915	79,734,409
	357,907,840	369,205,842
Less allowance for loan losses	6,867,370	7,042,911
Net loans	$ 351,040,470	$ 362,162,931

Mortgage loans serviced by the Company for others amounted to $69,900,031 and $54,190,608 at December 31, 2012 and 2011, respectively.

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in central Pennsylvania. Such loans are subject to, at origination, credit risk assessment by management following the Company's lending policy. Although the Company has a diversified loan portfolio at December 31, 2012 and 2011, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates with loan balances in excess of $60,000 for the year ended December 31, 2012 is as follows:

2011	Additions	Amounts Collected	2012
$ 6,333,420	$ 19,605,007	$ 16,948,965	$ 8,989,462

5. ALLOWANCE FOR LOAN LOSSES

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial real estate loans, commercial and industrial loans, agricultural loans, state and political subdivision loans, consumer loans, and residential real estate loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three-year period for all portfolio segments. Certain qualitative factors are then added to the historical loss percentages to get the adjusted factor to be applied to nonclassified loans.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following qualitative factors are analyzed to determine allocations for nonclassified loans for each portfolio segment:

- Changes in lending policies and procedures
- Changes in economic and business conditions
- Changes in nature and volume of the loan portfolio
- Changes in lending staff experience and ability
- Changes in past-due loans, nonaccrual loans, and classified loans
- Changes in loan review
- Changes in underlying value of collateral-dependent loans
- Levels of credit concentrations
- Effects of external factors, such as legal and regulatory requirements

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the Bank's operating environment. During 2012, management elevated the qualitative factors reserve percentage for all pools of loans, although the increase was higher for commercial real estate loans and commercial and industrial loans. Changes in lending staff experience and ability, changes in the nature and volume of the loan portfolio, changes in the loan review process, and the effect of external factors all contributed to the increase in factor percentages for various loan pools. Changes in the underlying value of collateral-dependent loans also contributed to the factor percentage increase for commercial real estate loans. The increase in factor percentages for consumer loans and loans to state and political subdivisions was attributable to changes in economic and business conditions, as well as changes in the lending staff. The change in credit staff experience and ability factor percentage was increased because of the resignation of the Chief Credit Officer and the addition of some new, less experienced lending personnel. Though a new Chief Credit Officer has been hired with over 40 years of experience in the banking industry, potential risk levels remain elevated as his time with the Bank has been nominal and requires validation. The effect of external factors' percentage increased due to a number of reasons, including the enactment of the Dodd-Frank Act and continued lack of economic growth. The changes in the underlying value of collateral-dependent loans in the commercial real estate category are attributable to ongoing modest declines in market value of commercial real estate within the Bank's primary market area, while the changes in economic and business conditions increase in the consumer loan category are attributable to stubbornly high unemployment numbers in the Bank's market area.

We consider commercial real estate loans, commercial and industrial loans, agricultural loans and consumer loans to be riskier than one-to-four family residential mortgage loans. Commercial real estate loans entail significant additional credit risks compared to one-to-four family residential mortgage loans, as they involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is also the primary occupant, and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial and industrial loans, along with agricultural loans, involve a higher risk of default than residential mortgage loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any. The repayment of agricultural loans can also be impacted by commodity prices going up and down. Although a customer's ability to repay for both one-to-four family residential mortgage loans and consumer loans is highly dependent on the local economy, especially employment levels, consumer loans as a group generally present a higher degree of risk because of the nature of collateral, if any.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

State and political subdivision loans carry approximately the same risk as residential real estate loans as most state and political subdivision loans are either backed by the full taxing authority of a municipality or the revenue of a municipal authority.

The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of and for the years ended December 31:

2012	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 3,610,905	$ 2,082,685	$ 202,520	$ 101,551	$ 311,203	$ 361,607	$ 372,440	$ 7,042,911
Charge-offs	(270,731)	(23,732)	(23,376)	-	(108,292)	(28,205)	-	(454,336)
Recoveries	3,208	2,148	-	-	3,439	-	-	8,795
Provision	(697,305)	(41,449)	41,041	30,463	141,136	137,336	658,778	270,000
Ending balance	$ 2,646,077	$ 2,019,652	$ 220,185	$ 132,014	$ 347,486	$ 470,738	$ 1,031,218	$ 6,867,370
Ending balance individually evaluated for impairment	$ 309,060	$ 645,765	$ -	$ -	$ -	$ 22,240	$ -	$ 977,065
Ending balance collectively evaluated for impairment	$ 2,337,017	$ 1,373,887	$ 220,185	$ 132,014	$ 347,486	$ 448,498	$ 1,031,218	$ 5,890,305
Loans:								
Individually evaluated for impairment	$ 4,361,721	$ 1,579,920	$ 407,170	$ -	$ 161,774	$ 593,021	$ -	$ 7,103,606
Collectively evaluated for impairment	109,386,767	75,957,991	19,034,833	24,657,876	44,929,873	76,836,894	-	350,804,234
Ending balance	$ 113,748,488	$ 77,537,911	$ 19,442,003	$ 24,657,876	$ 45,091,647	$ 77,429,915	$ -	$ 357,907,840

2011	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 3,023,441	$ 1,854,554	$ 255,190	$ 105,893	$ 403,463	$ 455,083	$ 147,817	$ 6,245,441
Charge-offs	-	(6,258)	-	-	(10,691)	-	-	(16,949)
Recoveries	-	9,738	1,402	-	3,279	-	-	14,419
Provision	587,464	224,651	(54,072)	(4,342)	(84,848)	(93,476)	224,623	800,000
Ending balance	$ 3,610,905	$ 2,082,685	$ 202,520	$ 101,551	$ 311,203	$ 361,607	$ 372,440	$ 7,042,911
Ending balance individually evaluated for impairment	$ 495,725	$ 272,299	$ -	$ -	$ 29,000	$ 59,840	$ -	$ 856,864
Ending balance collectively evaluated for impairment	$ 3,115,180	$ 1,810,386	$ 202,520	$ 101,551	$ 282,203	$ 301,767	$ 372,440	$ 6,186,047
Loans:								
Individually evaluated for impairment	$ 4,476,570	$ 1,252,246	$ 90,993	$ -	$ 104,289	$ 269,806	$ -	$ 6,193,904
Collectively evaluated for impairment	115,794,427	78,502,426	19,203,367	25,125,149	44,921,966	79,464,603	-	363,011,938
Ending balance	$ 120,270,997	$ 79,754,672	$ 19,294,360	$ 25,125,149	$ 45,026,255	$ 79,734,409	$ -	$ 369,205,842

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Reserve requirement for commercial real estate loans decreased by $697,304 from 2011 to 2012, while those for commercial and industrial loans decreased by $41,449 during the same period. This was a direct result of decreases during 2012 of criticized and classified assets which at $27.8 million at December 31, 2012, indicates a 42.41 percent or $20.5 million decrease from December 31, 2011. While the reduced balances in criticized and classified assets signify better management of the portfolio and reduced risk to the Bank, management has chosen to adopt a more conservative approach and evaluate sustained performance of these loans.

Credit Quality Information

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2012 and 2011, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally-assigned grades are as follows:

Pass loans are loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Special Mention loans are loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. Substandard loans are loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful loans have all the weaknesses inherent in a substandard asset and these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Finally, loans classified as Loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

2012	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 102,453,018	$ 69,619,198	$ 18,013,206	$ 24,657,876	$ 214,743,298
Special Mention	4,970,737	5,320,354	784,330	-	11,075,421
Substandard	6,285,096	2,362,688	563,974	-	9,211,758
Doubtful	39,637	235,671	80,493	-	355,801
Loss	-	-	-	-	-
Total	$ 113,748,488	$ 77,537,911	$ 19,442,003	$ 24,657,876	$ 235,386,278

2011	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 90,581,881	$ 63,974,717	$ 17,650,944	$ 24,912,457	$ 197,119,999
Special Mention	9,447,786	5,523,313	598,908	212,692	15,782,699
Substandard	17,856,862	9,731,488	1,044,508	-	28,632,858
Doubtful	2,384,468	525,154	-	-	2,909,622
Loss	-	-	-	-	-
Total	$ 120,270,997	$ 79,754,672	$ 19,294,360	$ 25,125,149	$ 244,445,178

Notes to Consolidated Financial Statements

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

For consumer and residential real estate loans, the Company evaluates credit quality based on whether the loan is considered performing or nonperforming. Nonperforming loans are those loans past due 90 days or more and loans on nonaccrual. The following tables present the balances of consumer and residential real estate loans by classes of loan portfolio based on payment performance as of December 31:

2012	Consumer	Residential Real Estate	Total
Performing	$ 45,030,460	$ 77,028,748	$ 122,059,208
Nonperforming	61,187	401,167	462,354
Total	$ 45,091,647	$ 77,429,915	$ 122,521,562

2011	Consumer	Residential Real Estate	Total
Performing	$ 44,872,546	$ 79,066,061	$ 123,938,607
Nonperforming	153,709	668,348	822,057
Total	$ 45,026,255	$ 79,734,409	$ 124,760,664

Age Analysis of Past-Due Loans by Class

The following are tables which show the aging analysis of past-due loans as of December 31:

2012	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial real estate	$ -	$ 27,099	$ 3,517,492	$ 3,544,591	$ 110,203,897	$ 113,748,488	$ -
Commercial and industrial	237,590	81,851	80,560	400,001	77,137,910	77,537,911	-
Agricultural	-	3,675	323,002	326,677	19,115,326	19,442,003	-
State and political subdivision	112,696	-	-	112,696	24,545,180	24,657,876	-
Consumer	139,288	43,201	61,187	243,676	44,847,971	45,091,647	3,676
Residential real estate	418,377	-	401,167	819,544	76,610,371	77,429,915	-
Total	$ 907,951	$ 155,826	$ 4,383,408	$ 5,447,185	$ 352,460,655	$ 357,907,840	$ 3,676

2011	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial real estate	$ 954,872	$ 1,194,157	$ 2,783,066	$ 4,932,095	$ 115,338,902	$ 120,270,997	$ -
Commercial and industrial	480,256	-	729,903	1,210,159	78,544,513	79,754,672	-
Agricultural	257,928	-	90,993	348,921	18,945,439	19,294,360	-
State and political subdivision	118,908	-	-	118,908	25,006,241	25,125,149	-
Consumer	189,895	45,219	153,709	388,823	44,637,432	45,026,255	49,420
Residential real estate	138,046	-	668,348	806,394	78,928,015	79,734,409	398,542
Total	$ 2,139,905	$ 1,239,376	$ 4,426,019	$ 7,805,300	$ 361,400,542	$ 369,205,842	$ 447,962

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

Management considers commercial real estate loans, commercial and industrial loans, agricultural loans, and state and political subdivision loans which are 90 days or more past due to be impaired. After becoming 90 days or more past due, these categories of loans are measured for impairment. Any consumer and residential real estate loans related to these delinquent loans are also considered to be impaired. Troubled debt restructurings are measured for impairment at the time of restructuring. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the fair value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through a provision or through a charge to the allowance for loan losses.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount as of December 31:

	2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 3,413,066	$ 3,413,066	$ -	$ 3,589,772	$ 32,786
Commercial and industrial	436,829	436,829	-	642,595	10,993
Agricultural	407,170	407,170	-	252,420	-
State and political subdivision	-	-	-	-	-
Consumer	161,774	161,774	-	113,093	-
Residential real estate	372,194	372,194	-	387,838	753
	4,791,033	4,791,033	-	4,985,718	44,532
With an allowance recorded:					
Commercial real estate	948,655	948,655	309,060	1,746,439	2,955
Commercial and industrial	1,143,091	1,143,091	645,765	1,165,633	-
Agricultural	-	-	-	6,251	-
State and political subdivision	-	-	-	-	-
Consumer	-	-	-	35,377	-
Residential real estate	220,827	220,827	22,240	188,666	-
	2,312,573	2,312,573	977,065	3,142,366	2,955
Total:					
Commercial real estate	4,361,721	4,361,721	309,060	5,336,211	35,741
Commercial and industrial	1,579,920	1,579,920	645,765	1,808,228	10,993
Agricultural	407,170	407,170	-	258,671	-
State and political subdivision	-	-	-	-	-
Consumer	161,774	161,774	-	148,470	-
Residential real estate	593,021	593,021	22,240	576,504	753
Total	$ 7,103,606	$ 7,103,606	$ 977,065	$ 8,128,084	$ 47,487

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 2,561,616	$ 2,561,616	$ -	$ 2,318,776	$ 129,281
Commercial and industrial	287,539	287,539	-	1,236,654	59,394
Agricultural	90,993	90,993	-	173,373	3,893
State and political subdivision	-	-	-	-	-
Consumer	57,083	57,083	-	94,985	8,351
Residential real estate	231,066	231,066	-	224,562	4,112
	3,228,297	3,228,297	-	4,048,350	205,031
With an allowance recorded:					
Commercial real estate	1,914,954	1,914,954	495,725	483,530	-
Commercial and industrial	964,707	964,707	272,299	147,859	-
Agricultural	-	-	-	-	-
State and political subdivision	-	-	-	-	-
Consumer	47,206	47,206	29,000	11,801	-
Residential real estate	38,740	38,740	59,840	22,598	-
	2,965,607	2,965,607	856,864	665,788	-
Total:					
Commercial real estate	4,476,570	4,476,570	495,725	2,802,306	129,281
Commercial and industrial	1,252,246	1,252,246	272,299	1,384,513	59,394
Agricultural	90,993	90,993	-	173,373	3,893
State and political subdivision	-	-	-	-	-
Consumer	104,289	104,289	29,000	106,786	8,351
Residential real estate	269,806	269,806	59,840	247,160	4,112
Total	$ 6,193,904	$ 6,193,904	$ 856,864	$ 4,714,138	$ 205,031

Nonaccrual Loans

Loans are considered nonaccrual upon reaching 90 days of delinquency even though the Company may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

On the following table are the loan balances on nonaccrual status as of December 31:

	2012	2011
Commercial real estate	$ 4,361,721	$ 4,476,570
Commercial and industrial	1,579,920	1,252,246
Agricultural	407,170	90,993
State and political subdivision	-	-
Consumer	161,774	104,289
Residential real estate	593,021	269,806
Total	$ 7,103,606	$ 6,193,904

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructuring

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment of class of loan, as applicable, through a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination. As of December 31, 2012 no specific reserves have been established against the troubled debt restructurings. Also, as of December 31, 2012 no charge-offs for the troubled debt restructurings were required.

Loan modifications that are considered troubled debt restructurings completed during the years ended December 31 were as follows:

	2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	2	$ 121,576	$ 121,576
Commercial and industrial	2	668,167	668,167
Agricultural	1	85,993	85,993
Residential real estate	3	323,287	323,287
Total	8	$ 1,199,023	$ 1,199,023

	2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	4	$ 2,148,060	$ 2,148,060
Commercial and industrial	1	50,299	50,299
Total	5	$ 2,198,359	$ 2,198,359

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2012	2011
Land and land improvements	$ 793,458	$ 793,458
Building and leasehold improvements	16,623,584	15,535,165
Furniture, fixtures, and equipment	5,530,468	5,538,570
	22,947,510	21,867,193
Less accumulated depreciation	7,868,712	7,655,566
Total	$ 15,078,798	$ 14,211,627

Depreciation and amortization charged to operations was $1,034,512 in 2012 and $937,985 in 2011.

7. GOODWILL

As of each of the years ended December 31, 2012 and 2011, goodwill had a carrying amount of $1,668,699. The gross carrying amount of goodwill was tested for impairment in the third quarter, after the annual forecasting process. There was no impairment for the years ended December 31, 2012 and 2011.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2013	$ 78,690,900
2014	29,957,826
2015	17,120,175
2016	5,561,284
2017	6,765,087
Thereafter	20,596,270
	$ 158,691,542

The aggregate of all time deposit accounts of $100,000 or more amounted to $54,466,112 and $62,843,237 at December 31, 2012 and 2011, respectively.

9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, Federal Funds Purchased, and repurchase agreements with customers. Short-term borrowings also include a $5,000,000 unsecured line of credit with a commercial bank for the years ended December 31, 2012 and 2011, respectively. The line of credit agreement contains various covenants requiring the Company to maintain certain levels of financial performance. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2012	2011
Balance at year-end	$ 4,157,290	$ 5,696,162
Average balance outstanding	6,354,923	10,577,428
Maximum month-end balance	11,001,139	16,028,082
Weighted-average rate at year-end	2.50%	1.56%
Weighted-average rate during the year	1.43%	1.93%

10. OTHER BORROWINGS

The following table sets forth information concerning other borrowings:

Description	Maturity Range From	Maturity Range To	Weighted-Average Interest Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	At December 31, 2012	At December 31, 2011
Convertible	n/a	n/a	n/a %	n/a %	n/a %	$ -	$ 5,000,000
Fixed rate	01/07/13	11/14/17	3.09	1.09	4.96	25,014,605	28,484,805
Fixed rate amortizing	07/17/13	06/26/18	3.36	1.95	6.53	3,170,489	4,629,113
Mid-term repos	07/08/13	07/08/13	1.53	1.53	1.53	3,000,000	3,000,000
Subordinated capital notes	03/23/19	03/02/21	7.82	3.86	8.50	4,750,000	4,750,000
Note payable	03/17/35	11/23/35	4.21	2.31	6.11	6,186,000	6,186,000
						$ 42,121,094	$ 52,049,918

Maturities of other borrowings at December 31, 2012 are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2013	$ 15,262,119	3.34 %
2014	4,217,600	3.19
2015	4,026,822	2.81
2016	2,012,000	1.34
2017	5,457,229	2.35
2018 and after	11,145,324	5.79
	$ 42,121,094	3.70 %

Borrowing capacity consists of credit arrangements with the FHLB. FHLB borrowings are subject to annual renewal, incur no service charges, and are secured by a blanket security agreement on certain investment and mortgage-backed securities, outstanding residential mortgages, and the Bank's investment in FHLB stock. As of December 31, 2012, the Bank's maximum borrowing capacity with the FHLB was approximately $165 million.

The Company formed a special purpose entity ("Entity") to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of March 17, 2035. The rate on these securities is determined quarterly and floats based on three-month LIBOR plus 2.00 percent. The Entity may redeem them, in whole or in part, at face value on or after March 17, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company formed an additional special purpose entity to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of November 23, 2035. These securities bear a fixed rate of 6.11 percent until November 23, 2015, at which time the rate is determined quarterly and floats based on three-month LIBOR plus 1.50 percent. The Entity may redeem them, in whole or in part, at face value on or after November 23, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company's minority interests in these entities were recorded at the initial investment amount and are included in the accrued interest and other assets on the Consolidated Balance Sheet. These entities are not consolidated as part of the Company's consolidated financial statements.

The Bank may request a Federal Reserve Advance secured by acceptable collateral. The Bank's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2012, is approximately $11.7 million.

10. OTHER BORROWINGS (Continued)

The Bank also maintains a $5.0 million and $4.0 million federal funds line of credit with two other financial institutions. The Bank did not have outstanding borrowings related to these lines of credit at December 31, 2012.

The Company issued $3,000,000 of fixed rate subordinated debt securities with stated maturities of March 23, 2019 through June 26, 2019. These securities bear a fixed annual rate of 8.5 percent. The Company may redeem them, in whole or in part, at face value on or after March 23, 2014. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company issued $1,700,000 of fixed rate subordinated debt securities with stated maturities of November 12, 2020 through February 10, 2021 and $50,000 of adjustable rate subordinated debt securities with a stated maturity of March 2, 2021. The fixed securities bear an annual rate of 6.75 percent and the adjustable rate securities bear a rate of three-month LIBOR plus 3.50 percent and adjust quarterly. The Company may redeem them, in whole or in part, at face value on or after November 12, 2015. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

11. INCOME TAXES

The provision for federal income taxes consists of:

	2012	2011
Current	$ 507,193	$ 542,867
Deferred	31,885	(104,051)
Total provision	$ 539,078	$ 438,816

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 2,334,906	$ 2,394,590
Deferred compensation	213,444	235,036
Core deposit intangible assets	24,382	32,759
Alternative minimum tax carryforward	519,020	479,512
Asset valuation allowances	348,672	313,102
Employee compensation accruals	275,083	266,212
Nonaccrual interest receivable	166,997	84,741
Capital loss carryforward	232,403	228,767
Other	2,940	-
Deferred tax assets	4,117,847	4,034,719
Deferred tax liabilities:		
Premises and equipment	1,088,401	1,052,800
Goodwill	550,359	506,450
Deferred loan fees	116,088	141,356
Partnerships	229,620	168,844
Other	5,417	5,417
Unrealized gain on available-for-sale securities	1,451,711	1,270,707
Deferred tax liabilities	3,441,596	3,145,574
Net deferred tax assets	$ 676,251	$ 889,145

No valuation allowance was established at December 31, 2012 and 2011 in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

11. INCOME TAXES (Continued)

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

	2012 Amount	2012 % of Pretax Income	2011 Amount	2011 % of Pretax Income
Provision at statutory rate	$ 1,417,418	34.0 %	$ 1,385,395	34.0 %
Tax-exempt interest	(726,767)	(17.4)	(804,586)	(19.7)
Life insurance income	(96,343)	(2.3)	(99,776)	(2.5)
Other	(55,230)	(1.3)	(42,217)	(1.0)
Actual tax expense and effective rate	$ 539,078	13.0 %	$ 438,816	10.8 %

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2008 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

12. EMPLOYEE BENEFITS

Savings Plan

The Bank maintains a qualified 401(k) salary reduction and profit sharing plan that covers substantially all employees. Under the plan, employees make voluntary, pretax contributions to their accounts, and the Bank contributions to the plan are at the discretion of the Board of Directors. Contributions by the Bank charged to operations were $251,048 and $214,295 for the years ended December 31, 2012 and 2011, respectively. The fair value of plan assets includes $705,376 and $627,270 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2012 and 2011, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan that allows directors to defer fees. Outstanding balances under this arrangement for 2012 and 2011 were $627,775 and $691,282, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were $50,398 and $1,616 for December 31, 2012 and 2011, respectively.

12. EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan

The Company maintains a Restricted Stock Plan (the "Plan"). Employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance-related requirements. Awards granted under the Plan are in the form of the Company's common stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 12,000 shares of the Company's common stock. The Plan assists the Company in attracting, retaining and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. Compensation expense recognized related to the vesting of shares was $203,857 and $193,319 for the years ended December 31, 2012 and 2011, respectively.

The following is a summary of the status of the Company's restricted stock as of December 31, 2012, and changes therein during the year then ended:

	Number of Shares of Restricted Stock	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2012	9,522	$ 62.89
Granted	4,748	61.17
Vested	(3,394)	63.98
Forfeited	(733)	61.39
Nonvested at December 31, 2012	10,143	$ 61.54

Stock Option Plan

The Company has a fixed director and employee stock-based compensation plan. The plan has total options available to grant of 190,000 shares of common stock. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant. Options granted are primarily vested evenly over a three-year period from the grant date.

The following table presents share data related to the outstanding options:

	Number of Options	Weighted-Average Exercise Price
Outstanding, January 1, 2012	78,237	$ 77.04
Granted	12,200	60.00
Exercised	-	-
Forfeited	(11,301)	90.00
Outstanding, December 31, 2012	79,136	$ 75.23
Exercisable at year-end	54,993	$ 77.63

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table summarizes the characteristics of stock options at December 31, 2012:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
12/29/03	$ 91.25	3,168	1.00	$ 91.25	3,168	$ 91.25
03/16/04	91.25	3,450	1.20	91.25	3,450	91.25
05/26/04	94.00	734	1.40	94.00	734	94.00
06/30/04	96.75	2,618	1.49	96.75	2,618	96.75
01/05/05	93.00	8,127	2.01	93.00	8,127	93.00
02/03/05	93.00	380	2.09	93.00	380	93.00
02/09/05	93.00	26	2.11	93.00	26	93.00
02/10/05	95.00	100	0.21	95.00	100	95.00
02/24/05	96.00	42	2.15	96.00	42	96.00
03/29/05	96.00	3	2.24	96.00	3	96.00
04/26/05	96.00	441	2.32	96.00	441	96.00
07/08/05	96.00	333	2.52	96.00	333	96.00
12/08/05	95.00	1,401	2.93	95.00	1,401	95.00
12/10/05	95.25	3	2.94	95.25	3	95.25
12/16/05	95.00	150	2.96	95.00	150	95.00
12/22/05	95.00	4,440	2.97	95.00	4,440	95.00
01/25/07	88.00	545	4.07	88.00	545	88.00
02/23/07	90.00	525	4.15	90.00	525	90.00
01/31/08	76.35	6,750	4.08	76.35	6,750	76.35
03/26/09	51.00	9,800	6.23	51.00	9,800	51.00
10/27/09	70.00	1,000	6.82	70.00	1,000	70.00
04/01/10	68.25	10,300	7.25	68.25	6,798	68.25
04/28/11	59.50	11,800	8.24	59.50	3,894	59.50
10/11/11	62.00	500	8.77	62.00	165	62.00
12/22/11	56.00	300	8.98	56.00	100	56.00
04/02/12	60.00	12,200	9.24	60.00	-	
		79,136			54,993	

13. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities such as commitments to extend credit, financial guarantees, and letters of credit that are not reflected in the accompanying consolidated financial statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet.

13. COMMITMENTS (Continued)

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments that consisted of the following:

	2012	2011
Commitments to extend credit	$ 106,638,654	$ 94,033,585
Standby letters of credit	5,424,804	5,091,765
Total	$ 112,063,458	$ 99,125,350

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized upon expiration of the commitment period. For secured letters of credit, the collateral is typically Bank deposit instruments or real estate.

The Bank has committed to various operating leases for their branch and office facilities. Some of these leases include renewal options as well as specific provisions relating to rent increases. The minimum annual rental commitments under these leases outstanding at December 31, 2012 are as follows:

	Minimum Lease Payment
2013	$ 272,992
2014	269,032
2015	269,032
2016	235,363
2017	235,363
Thereafter	3,598,280
Total	$ 4,880,062

Rent expense under leases for each of the years ended December 31, 2012 and 2011 was $364,896 and $285,923, respectively.

Contingent Liabilities

The Company from time to time may be a party in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

14. REGULATORY RESTRICTIONS

Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2012 and 2011, was $1,503,000 and $1,513,000, respectively.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividends

The approval of the Comptroller of the Currency is required before a national bank can pay any dividends up to the Company if the total of all dividends declared in any calendar year would exceed net profits, as defined for that year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. Under this formula, the amount available for payment of dividends in 2013, without prior approval of the Comptroller, is approximately $8.1 million plus net profits retained in 2013 up to the date of the dividend declaration.

In order to manage capital and support safety and soundness of the Company and the Bank, management has decided to provide the banking regulators with written notice of any intention to pay dividends or make any capital distributions.

15. REGULATORY CAPITAL

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2012 and 2011, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier I risk-based, and Tier I leverage capital ratios must be at least 10 percent, 6 percent, and 5 percent, respectively.

15. REGULATORY CAPITAL (Continued)

The Company's actual capital ratios are presented in the following table that shows the Company met all regulatory capital requirements:

	2012		2011	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 58,458,296	14.05 %	$ 55,927,625	13.85 %
For capital adequacy purposes	33,288,986	8.00	32,307,719	8.00
To be well capitalized	41,611,233	10.00	40,384,648	10.00
Tier I capital (to risk-weighted assets)				
Actual	$ 48,203,132	11.58 %	$ 45,912,913	11.37 %
For capital adequacy purposes	16,644,493	4.00	16,153,859	4.00
To be well capitalized	24,966,740	6.00	24,230,789	6.00
Tier I capital (to average assets)				
Actual	$ 48,203,132	8.63 %	$ 45,912,913	8.26 %
For capital adequacy purposes	22,334,023	4.00	22,229,663	4.00
To be well capitalized	27,917,528	5.00	27,787,078	5.00

The Bank's actual capital ratios are presented in the following table which shows the Bank met all regulatory capital requirements:

	2012		2011	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 58,557,150	14.14 %	$ 54,533,683	13.56 %
For capital adequacy purposes	33,124,360	8.00	32,179,644	8.00
To be well capitalized	41,405,450	10.00	40,224,655	10.00
Tier I capital (to risk-weighted assets)				
Actual	$ 53,100,024	12.82 %	$ 49,313,930	12.26 %
For capital adequacy purposes	16,562,180	4.00	16,089,862	4.00
To be well capitalized	24,843,270	6.00	24,134,793	6.00
Tier I capital (to average assets)				
Actual	$ 53,100,024	9.55 %	$ 49,313,930	8.91 %
For capital adequacy purposes	22,247,473	4.00	22,135,707	4.00
To be well capitalized	27,809,341	5.00	27,669,634	5.00

16. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2012 and 2011, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 5,079,060	$ -	$ 5,079,060
U.S. government agency securities	-	45,273,820	-	45,273,820
Obligations of states and political subdivisions	-	51,230,329	-	51,230,329
Corporate securities	-	3,495,781	120,724	3,616,505
Mortgage-backed securities in government-sponsored entities	-	30,796,274	-	30,796,274
Total debt securities	-	135,875,264	120,724	135,995,988
Equity securities	218,244	-	-	218,244
Total	$ 218,244	$ 135,875,264	$ 120,724	$ 136,214,232

16. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2011			
	Level I	Level II	Level III	Total
Assets:				
U.S. government agency securities	$ -	$ 24,371,615	$ -	$ 24,371,615
Obligations of states and political subdivisions	-	54,223,156	-	54,223,156
Corporate securities	-	2,801,028	100,317	2,901,345
Mortgage-backed securities in government-sponsored entities	-	32,310,587	-	32,310,587
Total debt securities	-	113,706,386	100,317	113,806,703
Equity securities	363,789	-	-	363,789
Total	$ 363,789	$ 113,706,386	$ 100,317	$ 114,170,492

Financial instruments are considered Level III when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The following table presents the changes in the Level III fair-value category for the years ended December 31, 2012 and 2011.

	Corporate Securities
Balance, January 1, 2011	$ 1,454,151
Sales	(1,339,795)
Net change on unrealized gain on investment securities available for sale	(14,039)
Balance, January 1, 2012	100,317
Sales	-
Net change on unrealized gain on investment securities available for sale	20,407
Balance, December 31, 2012	$ 120,724

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2012 and 2011, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs and observable inputs employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and

16. FAIR VALUE MEASUREMENTS (Continued)

assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input. Other real estate owned is measured at fair value, less cost to sell at the date of 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. The fair value for mortgage servicing rights is estimated by discounting contractual cashflows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 6,126,540	$ 6,126,540
Other real estate owned	-	-	287,385	287,385
Mortgage servicing rights	-	-	356,490	356,490

	December 31, 2011			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 5,337,040	$ 5,337,040
Other real estate owned	-	-	370,173	370,173
Mortgage servicing rights	-	-	319,725	319,725

The following table provides a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2012.

	Fair Value	Valuation Technique	Unobservable Input	Range
Corporate securities	$ 120,724	Discounted cash flows	Projected defaults	0 projected defaults
			Discount rate	17.76% discount rate
Impaired loans	$ 6,126,541	Property appraisals	Management discount for property type and recent market volatality	0% - 15% discount
Other real estate owned	$ 287,385	Property appraisals	Management discount for property type and recent market volatality	0% - 15% discount
Mortage servicing rights	$ 356,490	Discounted cash flows	Discount rate	2.11 - 2.75% discount
			Prepayment speeds	2.49 - 4.29 prepaymnet factor

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments at December 31 are as follows:

	2012				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$ 23,792,622	$ 23,792,622	$ 23,792,622	$ -	$ -
Certificates of deposit	2,374,375	2,374,375	2,374,375	-	-
Investment securities available for sale	136,214,232	136,214,232	218,244	135,875,264	120,724
Loans held for sale	584,380	584,380	584,380	-	-
Net loans	351,040,470	361,572,848	-	-	361,572,848
Regulatory stock	4,794,900	4,794,900	4,794,900	-	-
Bank-owned life insurance	12,517,831	12,517,831	12,517,831	-	-
Accrued interest receivable	1,806,098	1,806,098	1,806,098	-	-
Mortgage servicing rights	356,490	356,490	-	-	356,490
Financial liabilities:					
Deposits	$ 460,447,071	$ 465,777,223	$ 301,758,279	$ -	$ 164,018,944
Short-term borrowings	4,157,290	4,157,290	4,157,290	-	-
Other borrowings	42,121,094	42,741,294	-	-	42,741,294
Accrued interest payable	766,587	766,587	766,587	-	-

	2011	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	$ 41,181,771	$ 41,181,771
Certificates of deposit	1,619,833	1,619,833
Investment securities available for sale	114,170,492	114,170,492
Loans held for sale	1,401,376	1,401,376
Net loans	362,162,931	367,556,756
Regulatory stock	4,602,584	4,602,584
Bank-owned life insurance	12,097,673	12,097,673
Accrued interest receivable	2,089,706	2,089,706
Mortgage servicing rights	319,725	319,725
Financial liabilities:		
Deposits	$ 454,660,313	$ 460,020,954
Short-term borrowings	5,696,162	5,696,162
Other borrowings	52,049,918	53,352,801
Accrued interest payable	948,603	948,603

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates, which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Certificates of Deposit, Loans Held for Sale, Regulatory Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings

The fair value is equal to the current carrying value.

Investment Securities Available for Sale

The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Loans

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Mortgage Servicing Rights

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Deposits

The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end.

Other Borrowings

Fair values for other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered for similar borrowings.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 13.

18. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 20, 2013, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

BOARD OF DIRECTORS OF KISH BANCORP, INC.

William P. Hayes, Chairman
James J. Lakso, Vice Chairman
William L. Dancy, Secretary
Spyros A. Degleris, Member
William S. Lake, Member
Alan J. Metzler, Member
Phyllis L. Palm, Member
Delmont R. Sunderland, Member

BOARD OF DIRECTORS OF KISH BANK

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James J. Lakso, Vice Chairman
William L. Dancy, Secretary
Spyros A. Degleris, Member
William S. Lake, Member
Alan J. Metzler, Member
Phyllis L. Palm, Member

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David Horner, Member
Michael J. Krentzman, Member
Karen P. Shute, Member
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Harvard K. McCardle, Member
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Gary L. Oden, Member
Phyllis L. Palm, Member
John Pannizzo, Member

EXECUTIVE OFFICERS

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J. Bradley Scovill, Senior Executive Vice President, Chief Operating Officer
John E. Arrington, Executive Vice President, Sales & Retail Banking Manager
William J. Hoyne, Vice President, Chief Credit Officer
Sangeeta Kishore, Executive Vice President, Chief Financial Officer
Robert S. McMinn, Executive Vice President, Financial Services and General Counsel
James L. Shilling, Jr., Executive Vice President, Senior Lending Officer

SENIOR OFFICERS

Walter J. Kay, Senior Vice President, Senior Information Officer
Amy M. Muchler, Senior Vice President, Deposit Operations and Branch Administration Director
Gerhard Royer, Senior Vice President, Commercial Lender
Stanley N. Ayers, Vice President, Special Assets Manager
Ronald B. Beyer, CFA®, Vice President, Profitability & Investment Portfolio Manager
Kathleen M. Boop, Vice President, Personal Lines Insurance Manager
Larry E. Burger, Vice President, Commercial Relationship Manager
David A. Coble, Vice President, Branch Manager
John P. Cunningham, II, Vice President, Regional Market Manager
Wade E. Curry, LUTCF, Vice President, Investment Services
Ann K. Guss, Vice President, Residential Lender
Allana L. Hartung, Vice President, Commercial Relationship Manager
Gregory T. Hayes, Vice President, Loan Services Manager
Carol M. Herrmann, Vice President, Administration and Communications Director/CEO, Kish Travel
Marsha K. Kuhns, Vice President, Branch Manager
John Q. Massie, Vice President, Commercial Relationship Manager
Scott R. Reigle, Vice President, Accounting and Controls Manager/ BSA Officer
Melissa K. Royer, Vice President, Service Support Manager & Security Officer
Cheryl E. Shope, Vice President, Residential Lender
Lana M. Walker, Vice President, Commercial Relationship Manager
Debra K. Weikel, Vice President, Loan Operations Director
Suzanne M. White, Vice President, Human Resource Director
Jeffrey D. Wilson, Vice President, CEO, Kish Agency
William W. Yaudes, Vice President, Regional Market Manager

OFFICERS

Kimberly A. Bubb, Assistant Vice President, Services and Systems Manager
Oksana F. DeArment, Assistant Vice President, Administrative Services Manager
Terra L. Decker, Assistant BSA Officer/Fraud Manager
Lucinda K. Dell, Assistant Vice President, Mortgage Underwriting Manager
Paul J. Fochler, Assistant Vice President, Risk Manager
Carol K. Kennedy, Consumer Lending Officer
Jeremy G. Mattern, Assistant Vice President, Credit Administration Manager
Peter K. Ort, Branch Manager
Matthew Q. Raptosh, Assistant Vice President, Commercial Lender
Stephanie L. Strickler, CFMP, Assistant Vice President, Marketing Manager
N. Robert Sunday, III, Assistant Vice President, Compliance Officer
Kayelene Sunderland, Assistant Vice President, Wealth Management/ Trust Administrator
D. Michael Whalen, General Manager, Kish Travel
Penny L. Zesiger, Assistant Vice President, Residential Lender

KISH BANK EMPLOYEES

Natalie B. Allison, Commercial Documentation Specialist
Tammy S. Anna, Customer Service Teller
Amber V. Arnold, Deposit Operations Specialist
Christina L. Bagrosky, Customer Service Teller
Barry L. Bargo, Courier
Douglas C. Baxter, Accounting Manager
Melissa D. Beale, Customer Service Teller
Sara M. Bean, Marketing and Communications Specialist
Emily S. Bloom, Executive Assistant
Julie L. Bond, Personal Banker
Stacy A. Boozel, Mortgage Operations Specialist
Megan M. Boyer, Customer Service Teller
Linda M. Brechbiel, Administrative Assistant
Terry L. Buckwalter, Customer Service Courier
Brittany A. Byler, Customer Service Teller
Ruth H. Carper, Mortgage Operations Underwriter
Karen L. Carter, Mortgage Operations Underwriter
Stephanie L. Chilcote, Lending Assistant
Ashley A. Clark, Deposit Operations Specialist
Brenda Collins, Mortgage Operations Specialist
Alisha D. Cooper, Personal Banker
Mary A. Cowher, Branch Manager
Richard D. Crider, ALCO Specialist
Jason M. Cunningham, Branch Manager
Kati E. Deans, Mortgage Operations Specialist
Peggy J. Dearing, Operations Assistant
Jannifer N. Diehl, Loan Operations Specialist
Mary S. Dietz, Collections Manager
Megan D. Dietz, Investment Services Assistant
Angela D. Drake, Service Support Specialist
Brandi M. Dufford, Deposit Operations Specialist
Amanda S. Dutrow, Administrative Assistant
Alexis E. Ertley, Personal Banker
Keatyn M. Fletcher, Loan Operations Specialist
Ellen V. Fornicola, Personal Banker
Troy J. Frank, Network Administrator
Joshua A. Fritchman, Financial Analyst
Jodie M. Gibboney, Personal Banker
Karen S. Gilbert, Commercial Documentation Specialist
Beth N. Metz Gilmore, Human Resources Assistant
Janice Y. Glick, Personal Banking Specialist
Jessica L. Grove, Loan Operations Specialist
Candee A. Gutshall, Branch Operations Specialist
Sharon A. Hall, Personal Banker
Lisa J. Hamler, Customer Service Teller
Jeffrey T. Hayes, Financial Advisor
Ashley L. Henry, Profitability Specialist
R. Michael Henry, Technical Support Specialist
Sallie M. Hicks, Branch Operations Specialist
Donald F. Hindman, Courier
Christina A. Hinkle, Commercial Documentation Specialist
Lara A. Hoffman, Regional Assistant Branch Manager
Sandra D. Hummel, Operations Assistant
Lauren N. Jeranka, Loan Documentation Review Manager
Karen M. Johnson, Personal Banker
Paula J. Kauffman, Commercial Loan Operations Specialist
Michael S. Kearns, Data Analyst
John J. Keeler, Commercial Relationship Manager
Lisa A. Kennedy, Training & Organizational Development Manager
Brittany E. Kern, Services and Systems Analyst
Darla S. King, Service Support Specialist
Abbey N. Knepp, Services and Systems Analyst
Cynthia G. Knorr, File Clerk
Chelcee L. Kyle, Customer Service Teller
Carolyn M. Leacy, Customer Service Teller
Lori A. Legradi, Customer Service Teller
Heidi C. Leonard, Consumer Lender
Carmella J. Long, Personal Banker
Tina K. McCurdy, Branch Operations Specialist
Jackson K. McDonald, Credit Analyst
Kathryn A. McKnight, Collections Assistant
Kristie R. McKnight, Commercial Lender Trainee
Duane K. McMullen, Jr., Accounting Specialist
Shelley V. Merrell, Deposit Operations Specialist
Mary A. Miller, Administrative Assistant
Joanna M. Minium, Loan Operations Assistant
Jennifer A. Mitchell, Mortgage Operations Underwriter
Amanda J. Myers, Customer Service Teller
Tina L. Nace, Loan Operations Specialist
Antonietta M. Naimo, Personal Banker
Seth J. Napikoski, Credit Analyst
Carol A. Noland, BSA/Fraud Specialist
Stanley E. Null, Courier
Titus D. O, Personal Banker
Valerie Ochs, Branch Manager
D. James Owen, Residential Lender
Melissa A. Paladino, Application Support Specialist
Constance F. Palm, Residential Lender
Chelsea N. Pannebaker, Customer Service Teller
Anne E. Parks, Customer Service Teller
Susan K. Peachey, Branch Operations Specialist
Janet Pekar, Customer Service Teller
Stephanie Powell, Deposit Operations Specialist
Susan C. Rainey, Customer Service Teller
Jesse L. Reed, Assistant Branch Manager
Amber N. Resto, Personal Banker
Linnea G. Ripka, Loan Operations Assistant
Billie A. Rupert, Investment Services Assistant
Krista M. Rupert, Customer Service Teller
Elise C. Santarelli, Credit Analyst
Leslie J. Sauer, Accounting Specialist
Melissa A. Sellers, Consumer Lender
April L. Shawver, Personal Banker
Alison M. Shoop, Customer Service Teller
Kylie M. Singer, Personal Banker
Jolene S. Snare, Customer Service Teller
Julie A. Snare, Payroll & Benefits Administrator
Glenn E. Snyder, Jr., Facilities Manager
Paula A. Stimeling, Mortgage Operations Specialist
Wendy S. Strohecker, Deposit Operations Manager
Crystal M. Sunderland, Service Support Specialist
Angela E. Swartzentruber, Personal Banker
Christopher E. Sweeney, Financial Planner
Cynthia G. Swineford, Customer Service Teller
Patricia A. Trinclisti, Customer Service Teller
Donald L. Varner, Facilities Supervisor
Jeanne L. Wagner, Customer Service Teller
Dana E. Watson, Operations Assistant
Rebecca M. Watt, Mortgage Operations Manager
Elaine S. Weller, Branch Manager
Debra J. Wert, Commercial Documentation Specialist
Rick W. Wert, Information Security Administrator
Danielle A. Yeater, Commercial Loan Operations Specialist
Crystal D. Yoder, Customer Service Teller
Delores K. Yoder, Commercial Documentation Specialist
Judy A. Yoder, Customer Service Teller
Roland G. Yoder, Courier
Nancy A. Zimmerman, Personal Banker
Alicia R. Zook, Customer Service Teller

KISH INSURANCE EMPLOYEES

Jennifer R. Beachel, Systems Operations Utilization Manager
Arlene M. Byler, Commercial Lines Customer Service Representative
Duane J. Coy, Insurance Specialist
Megan S. Diemert, Personal Lines Insurance Specialist
Marlene K. Johnson, Personal Lines Customer Service Representative
Amber E. Oborski, Personal Lines Customer Service Representative
Gina K. Perrin, Personal Lines Insurance Specialist
Tracy S. Powell, Personal Lines Customer Service Representative
Cindy J. Robinson, Commercial Lines Customer Service Representative
J. Anthony Willard, Commercial Lines Insurance Specialist
Natalie D. Xanthopoulos, Insurance Specialist

KISH TRAVEL EMPLOYEES

Sandra K. Berardis, Travel Specialist
Jolene Byler, Travel Specialist
Donna R. Feicke, Administrative Assistant
Sandra L. Hunley, Travel Specialist

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