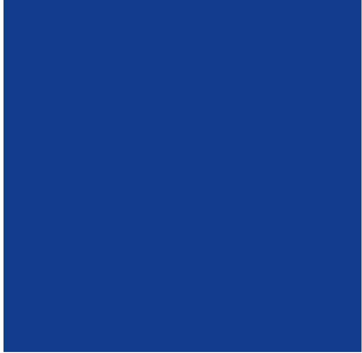
2013 Annual Report

Doing what **matters.**



KISH BANCORP
expect more

With an **unwavering focus** on fulfilling client needs, we will achieve superior, long-term shareholder returns.

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Chairman's
Letter to the Shareholders

William P. Hayes
Chairman of the Board and
Chief Executive Officer

Kish Bancorp had an exceptional year in 2013.

The Corporation reported record earnings. Asset growth resumed its traditional double digit upward momentum. Growth in revenues in the non-bank units was strong with corresponding increases in profitability. Regulatory matters were resolved. The strength of the team was augmented. Kish's market share rose across all markets. Kish was recognized for the seventh consecutive year as one of the "Top 200 Community Banks" in America by *American Banker Magazine*. In addition, key performance and quality metrics continued to affirm the Corporation's strong position relative to our competitors and banking industry peers.

It is gratifying to report such positive financial results to the shareholders, but we are also pleased to note that the Corporation validated a number of other factors critical to Kish's strong foundation for the future. It is a foundation that is the cornerstone of Kish's business model—the culture of service to our clients. To put this clearly, we simply say: ***"What matters to our customers, matters to Kish."***

The Corporation's mission statement captures it well: "With an unwavering focus on fulfilling client needs, we will achieve superior, long-term shareholder returns." The Kish brand, built upon the Corporation's "expect more" promise, further underscores our focus on clients. The Kish Bancorp team takes this promise very seriously, because our focus on client service excellence sets us apart in the world of increasing economic and regulatory uncertainty, growing consolidation, and rapidly changing delivery channels.

So whether it is through a robust strategic planning process or in day-to-day decision-making, the driving force behind all we do is client acquisition and retention. Inside the Kish team, we recognize and emphasize that the service excellence chain is one that links profitability, growth, customer acquisition, customer loyalty, relationship expansion, and employee satisfaction. Our team knows that customer loyalty is an outgrowth of customer satisfaction, which can only emanate from the value of services provided by motivated, loyal, and

supported employees. Of course, that means the stronger our team, not only in markets and across markets, but also across Kish's four business lines, the better we are able to satisfy our customers and keep the Corporation both profitable and growing.

We are pleased to report that in 2013, the Kish model served us well.

- Kish's 2013 net income of $4.2 million represented an increase of $0.6 million, or 16.17%, from $3.6 million in 2012 and was the highest annual net income in the Corporation's history.
- Earnings per share reached $3.54 compared to $3.05 per share in 2012. (Per share data has been adjusted to reflect the two-for-one stock split announced in May 2013.)
- The two-for-one stock split was declared in recognition of prospects for future growth and the Corporation's strong underlying financial fundamentals.
- Net interest income after provisions for loan losses, at $18.4 million for 2013, increased by $1.9 million, or 11.4%, from $16.6 million the prior year.
- Noninterest income, though lower due to reduced margins on mortgage origination fees and lower gains on securities, was strengthened by the results of Kish's wealth management, insurance and travel units.
- Total assets for year end 2013 rose to a record $630 million, an increase of $73 million, or 13.0%, compared to total assets of $558 million at December 31, 2012.
- Total loans for the period ending December 31, 2013 increased by $29 million, or 8.2%, to $387 million from $356 million the prior year, and total deposits increased by $34 million to $494 million from $460 million, an increase of 7.4%.
- Loan quality remained exceptionally strong, providing for a reduction in the loan loss reserve of $0.9 million, which contributed directly to net income.
- Net charge-offs in 2013 remained near zero.
- Delinquent loans remain very low and ranked Kish Bank in the top 5% of its peers.
- Return on shareholders' equity was 9.7% compared to 8.61% in 2012.
- Noninterest expense was $19.9 million in 2013, a modest increase of $624 thousand, or 3.2%, from $19.3 million in 2012. Primary drivers of this increase were employee benefits expenses associated with higher healthcare costs and employer taxes, and increased core processing expenses related to customer activity.

We are also pleased to note that as we enter 2014, the Bank does so having completed a conversion of its banking charter from a national to a Pennsylvania state charter. Kish Bank is now supervised by the Pennsylvania Department of Banking and Securities and the FDIC. The holding company will continue to have the Federal Reserve as its regulator. The charter conversion will have no impact on Bank customers, will not have a material effect on the Bank's current business activities or sources of revenue, and will reduce annual regulatory assessments. We expect that the Bank and its customers also will benefit from the experience and insight provided by the Pennsylvania Department of Banking and Securities through its focus on Pennsylvania community banks and financial institutions. In addition, the supervision provided by the Pennsylvania Department of Banking and Securities and the FDIC will be of a similar quality and thoroughness to that delivered by federal regulators in the past.

In addition to the foregoing key performance metrics, 2013 also witnessed several enhancements to the Kish team. Paul G. Howes of State College joined our Board of Directors, bringing with him a wealth of knowledge and experience in corporate management, strategy, sales, and marketing that will strengthen the Corporation's governance body. President and Chief Operating Officer, J. Bradley Scovill, was also appointed to the Bank's Board of Directors.

We also are pleased to note new additions to our regional boards: James W. Felmlee in Mifflin County; Dominick F. Peruso, Jr. in Huntingdon County; and Alan G. Hawbaker, Adam R. Fernsler and Paul H. Silvis in Centre County. All understand and support Kish's unique role in our markets and share a firm commitment to the communities where we live and work.

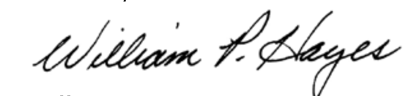
We also wish to acknowledge the continuing growth of our senior leadership team, recognized in the promotions of **J. Bradley Scovill** to the position of President and Chief Operating Officer, and his appointment to the Bank's Board of Directors, and **Sangeeta Kishore** to the position of Senior Executive Vice President, Chief Financial Officer and Senior Risk Officer. Both of these individuals bring strong banking and finance experience to Kish, along with a passionate commitment to the Corporation's business model. Their leadership contributes greatly to our success and, indeed, is accelerating progress toward the achievement of Kish's long-term corporate goals.

Throughout 2013, Kish has enjoyed and deepened its partnership with Lady Lion Basketball Coach Coquese Washington, who this season led her young team to an unprecedented third consecutive Big Ten Championship. Our relationship with this bright and able woman, a leader in her field and at Penn State, has deepened the appreciation of the value that Kish brings to our region.

We also wish to acknowledge the many contributions of several directors whose terms on the Board will end with the 2014 Shareholders Meeting. With both gratitude and friendship, we extend our appreciation to Alan Metzler, Owner of Metzler Forest Products, and Delmont Sunderland, President and CEO of World Marketing of America, Inc. We are grateful not only for the time they devoted to Kish, but also the insight and guidance they provided the Board. Although business obligations and time demands prevent them from standing for reelection in 2014, they will continue to benefit Kish through their participation on the Kish Regional Boards in Mifflin and Huntingdon counties, respectively.

As we conclude this review of another year of progress for Kish Bancorp, we gratefully acknowledge the continued support and encouragement of you, our shareholders. We are honored by your loyalty and confidence in the Kish business model, one that contributes greatly to Kish's extraordinary culture, the communities we serve, and our ambitious goals for the future.

Sincerely,



William P. Hayes
Chairman of the Board and Chief Executive Officer

Doing what **matters.**

Above: *Kish team members pause for a photo at the United Way Day of Caring.*

Left: *Bill Hayes and Coquese Washington present Frances Vaughn and Lisa Mallon of J.C. Blair Memorial Hospital with a check from The Pink Zone. (Photo courtesy of MJEMs Photos.)*

Kish has a culture that is unique to its people, one that has been honed for over a century, deeply rooted in central Pennsylvania, and enlightened consistently by leadership engagement with the banking and financial services industry across the Commonwealth and nation. A community bank, one committed to being a positive force in the life of our communities, is at our core. That core is broadened by our non-banking business units: Kish Insurance, Kish Wealth Management, and Kish Travel. Ours is a story about how a passionate commitment to great service defines a company and its team. Ours is a story that creates sustainability through every twist in the economic and regulatory environment. Every single person on the Kish team constructs the human connection between the numbers that define us and the clients we serve. Our people connect our shared values to our diverse business model. They make the difference, and they bring the Kish experience to life with the firm conviction—based on experience—that finding solutions, resolving problems, and creating opportunity for our clients will build long-term relationships that allow us to acquire and retain customers in a manner that delivers performance for our shareholders. They do what matters.

OUR CLIENTS

Companies like Kish, with a passion for great service as the means to define our culture and our team, pay attention to client feedback. We welcome feedback, we respond to it, and we adjust accordingly.

Kish clients include the full spectrum of people who live in our three-county market area: Mifflin County, Huntingdon County, and Centre County. Using our mortgage business as an example, Kish finances everything from modest starter homes to grand residences on large tracts of land, and everything in between. In 2013, Kish prepared diligently to implement the new mortgage regulations under Dodd-Frank in January 2014, thereby staying current and protecting this important business for the future. Homeownership and investment in residential real estate generally are still very much part of the American dream. Financing that dream is an important aspect of the Bank's business operations. Indeed, Kish is welcoming members of the growing international communities in our markets, who also are pursuing home ownership in the United States, right here in central Pennsylvania.

Our non-banking businesses reflect the same commitment to serving the people in our market area. Kish Insurance insures everything from personal items such as engagement rings to multi-million-dollar commercial properties. Kish Wealth Management invests and manages funds for retired state employees, small business owners, globally successful entrepreneurs, and high net worth individuals, many of whom choose to retire amidst the natural and cultural riches of central Pennsylvania. Kish Travel books business ranging from airline tickets for clients visiting family members to extended luxury domestic and international travel for multi-generational families. Regardless of the individual need, Kish is committed to fulfilling the goals and the dreams of those who live and work in our communities. The common thread across our business lines is our **"expect more"** service promise—a promise that both differentiates and defines Kish.

What kind of feedback are we receiving? Here are a few examples that illustrate the efforts behind the numbers:

Commercial Lending
"We were doing a large equipment upgrade and were basing our decision on 'when' by the advice of our CPA during our fourth quarter meetings. … [A competitor] took over three weeks to get a financing proposal together for us. … I wanted to get a feel for a competitive rate. I had that [from Kish] within a day … [and] everything was set up for the closing in a matter of a couple days. … Over the weekend, my wife and I made the decision to move our checking and credit line to you as well. … And what totally blew us away is how we were treated during the change process—we felt like we were your most important customer. … It was very refreshing."

Mortgage Lending
"My formerly upset coworker approached me today and figured that I must have contacted someone for her at Kish. [She was upset about how Kish dealt with her daughter's effort to secure a starter home loan.] She was very pleased with your bank for reaching out and reconnecting with her daughter. … Someone did a nice job establishing respect and trust with her family and she was happy. Thanks for following up!"

Kish Wealth Management
"A year or two ago, we made the decision to change our simple IRA to a 401(k) and felt that we wanted to look at other options. … I thought I would give [Kish Wealth Management] a shot. Well, to put it mildly, we were thrilled and moved our retirement accounts to Kish."

Kish Insurance
"Everyone at Kish Insurance understands customer service and our unique needs. They really treat us as people, not just as another account or number. They're basically like our friends, willing to help you on any level. When Kish says **'expect more,'** they mean it."

Kish Travel
"One of the Bank's clients with a significant commercial loan and deposit relationship reached out to Kish to provide him with a Disney Travel package that he could use as a prize for a challenge that he is promoting. After some general discussions, he asked the Travel team to put together the package based on a very tight budget with several undetermined variables. The real challenge to Kish was that he was planning to launch the program a short

Nationally-acclaimed broadcast journalist Gail Buckner speaks to guests about Social Security at an event hosted by Kish.

three days later and he needed marketing information for his website. The Travel and Marketing teams took the challenge and truly delivered the Kish experience. … The materials [needed] were delivered to the client a day early."

OUR EMPLOYEES

Kish employees know that caring for and nurturing our clients is an absolute organizational priority that requires collaboration between sales, service, and support, with a special focus on client information management. They are not satisfied knowing that existing accounts are managed properly—they also must anticipate and meet client needs as they change and grow over time in a rapidly and constantly changing marketplace of products, ideas, and needs.

Kish employees know that the value customers assign to service is directly related to the performance of satisfied, motivated, and productive employees who are passionate about the services they deliver.

Kish employees recognize that giving back matters and they volunteer countless hours in the community, above and beyond their daily business responsibilities. The same thing is true of Kish senior officers, most of whom serve on non-profit boards.

Kish values leaders who are passionate about service and dedicated to developing teams capable of sustaining a client-focused culture. Our teams acquired significant new customers in 2013 and outperformed the competition in every area.

In 2013, two Service Quality Teams, comprised of our most promising young leaders, were formed to conduct an exhaustive analysis of the Corporation's service channels.

Bill Hayes congratulates Amanda Dutrow, the 2013 MVP, at the Employee Recognition Dinner.

Their work was extensive and their recommendations comprehensive, many of which have been implemented and all of which have been included in Kish's three-year strategic plan. This is yet further evidence of our commitment to ensure that Kish's **"expect more"** promise is fresh and continues to stand out in the constantly changing and competitive environment around us.

What kind of feedback are we receiving about our employees? Here are a couple of examples:

"Thank you for creating a culture in Kish that makes business banking a true partnership. And give your staff a huge raise—they are amazing!"

"I love your team at the South Atherton branch. I walk in and they know my name, and even though they are usually busy, no one ever fails to say hello. They're great. I love going in there."

OUR SHAREHOLDERS

Kish has always been and continues to be blessed by loyal shareholders who are keenly aware that Kish not only talks the talk of community banking, but walks the walk in our market area. They know that local ownership and local decisions make a measurable difference for the individuals, businesses, and municipalities that we serve. Kish shareholders see us working in our markets, finding solutions, solving problems, and creating opportunities for individuals, families (often over multiple generations), small business, and larger corporations.

Through their support, Kish shareholders enable the Corporation to continue to work hard to achieve its considerable goals, embrace the challenges and opportunities before us, exceed our service quality standards, execute our business model, and—critically important—help build and protect the communities where we work and live, all as our business lines evolve and grow.

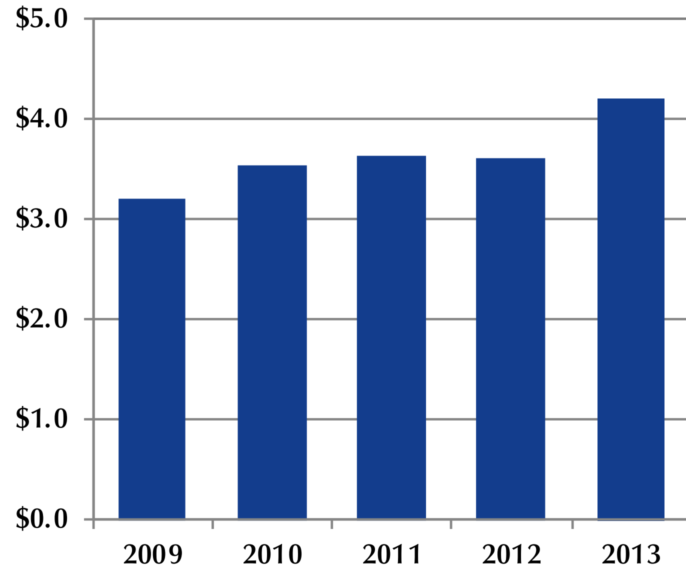
Financial **Highlights**

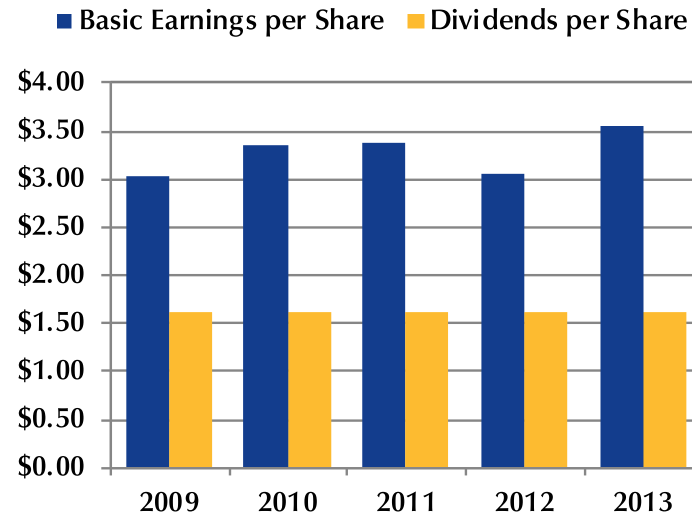
Five-Year Summary

FOR THE YEAR	2013	2012	2011	2010	2009
Net Income	$4,216,873	$3,629,794	$3,631,298	$3,556,124	$3,213,423
Net Income Before Taxes	4,980,589	4,168,872	4,070,114	4,026,669	3,586,370
Total Dividends Declared	1,971,992	1,960,051	1,760,493	1,739,714	1,721,575
AT YEAR END (in $000s)					
Total Assets	$630,132	$557,575	$560,069	$556,623	$527,396
Total Loans (Net)	381,261	351,040	362,163	367,306	367,824
Total Deposits	494,374	460,450	454,660	446,002	407,721
Stockholders' Equity	40,681	46,252	43,517	35,729	34,062
Loan Loss Reserve	5,928	6,867	7,043	6,245	5,397
Net Loan Losses (Recoveries)	34	445	3	1,001	252
RATIO ANALYSIS					
Return on Average Assets*	0.69%	0.65%	0.65%	0.65%	0.64%
Return on Average Equity*	9.70%	8.61%	9.82%	10.31%	9.73%
Dividend Declared/Net Income	46.76%	54.00%	48.48%	48.92%	53.57%
Loans/Deposits	77.12%	76.24%	79.66%	82.36%	90.21%
Primary Capital/Total Assets	7.40%	9.53%	9.03%	7.54%	7.48%
Total Capital/Risk Weighted Assets	13.17%	14.05%	13.85%	11.67%	11.26%
Loan Loss Reserve/Loans	1.53%	1.92%	1.91%	1.67%	1.44%
Net Loan Losses to Total Loans (Net)	0.01%	0.12%	0.00%	0.27%	0.07%
PER SHARE DATA**					
Basic Earnings	$3.54	$3.05	$3.37	$3.36	$3.04
Fully Diluted Earnings	3.51	3.05	3.36	3.34	3.04
Dividends Paid	1.62	1.62	1.62	1.62	1.62
Equity (Book Value)	33.40	38.10	36.48	33.27	31.81
Equity Plus Loan Loss Reserve	38.27	43.76	42.38	39.09	36.85
Average Shares Outstanding (#)	1,192,755	1,189,222	1,077,470	1,058,686	1,056,250

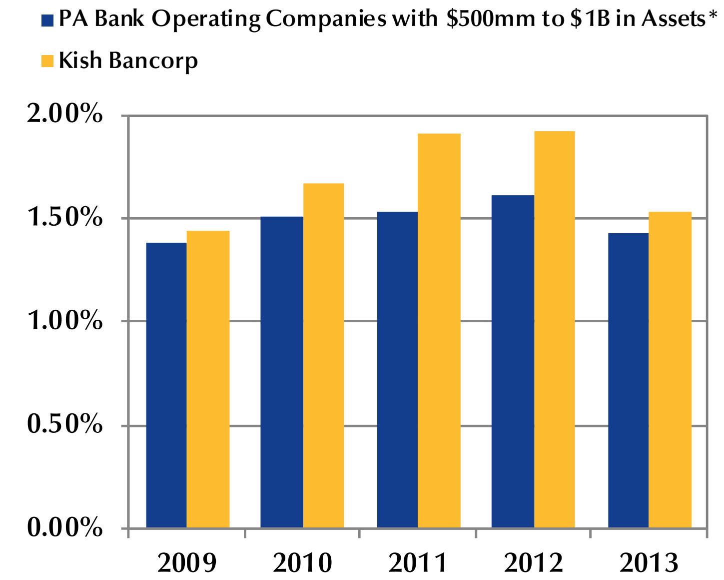
*Due to fluctuations in the mark to market valuation for investment securities, we do not include them in our total for average assets and average equity.

**Per share data for the years 2009 through 2012 have been adjusted to post stock split levels for comparability.

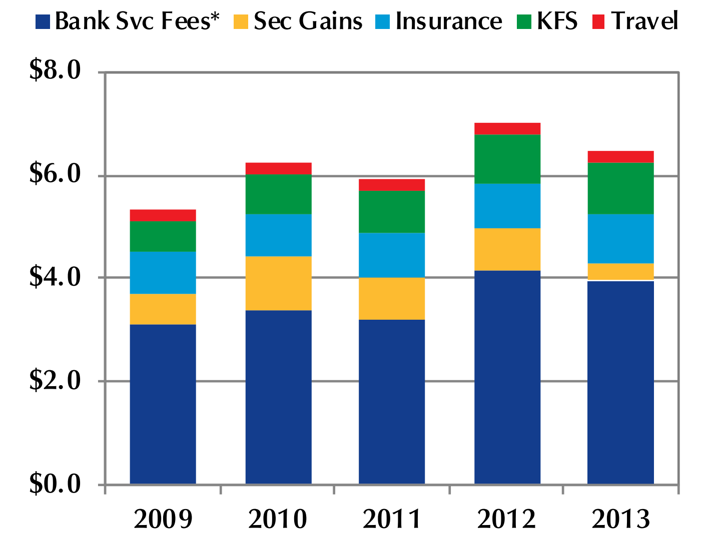


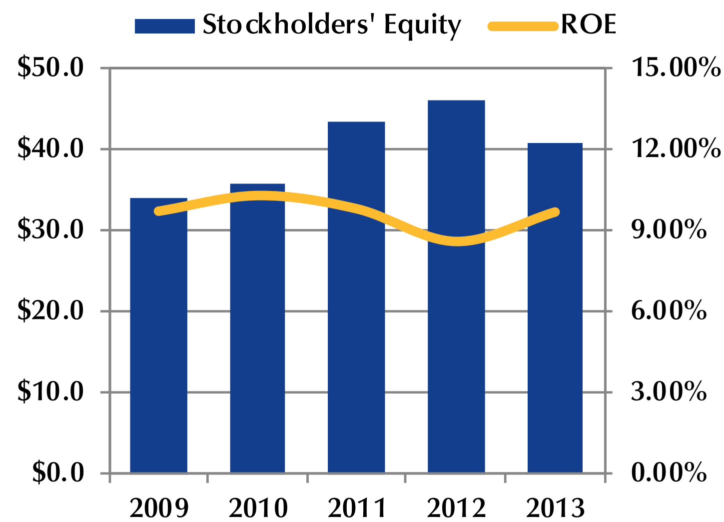


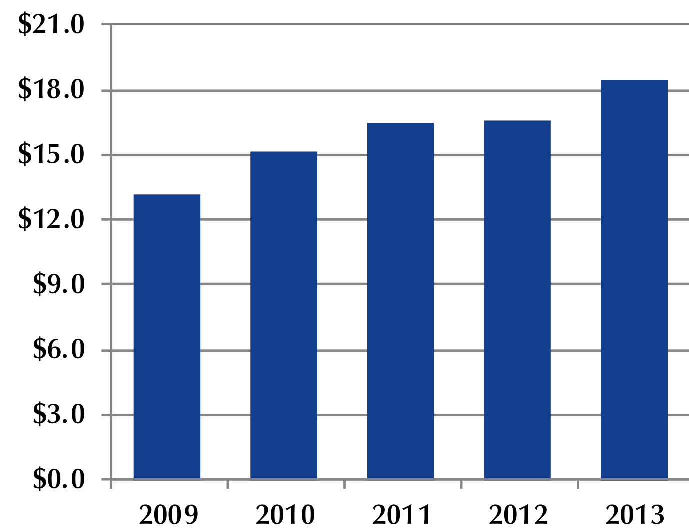
*EPS and dividends per share have been adjusted to reflect the 2-for-1 stock split in May 2013

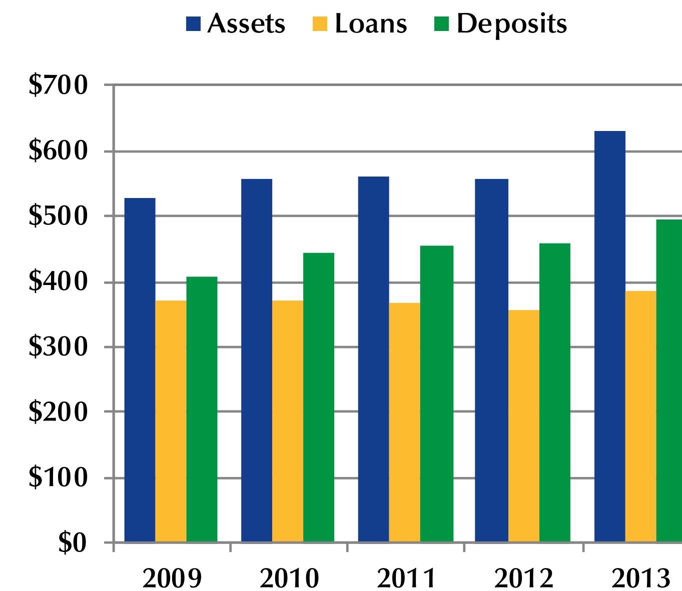


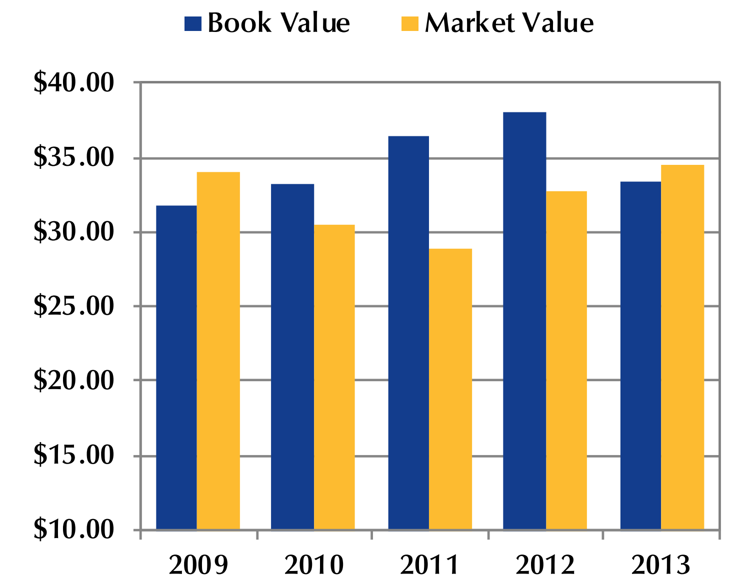
*Source: SNL Financial, median values











*Book Value and Market Value per share have been adjusted to reflect the 2-for-1 stock split in May 2013

Independent Auditor's **Report**

INDEPENDENT AUDITOR'S REPORT
BOARD OF DIRECTORS AND STOCKHOLDERS
KISH BANCORP, INC.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Kish Bancorp, Inc. and subsidiaries which comprise the consolidated balance sheet as of December 31, 2013 and 2012; 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 consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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, 2013 and 2012, 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, P.C.

Wexford, Pennsylvania
March 24, 2014

KISH BANCORP, INC.
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2013

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Consolidated Balance Sheet

	December 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 7,057,478	$ 8,944,401
Interest-bearing deposits with other institutions	7,382,070	14,848,221
Cash and cash equivalents	14,439,548	23,792,622
Certificates of deposit in other financial institutions	980,000	2,374,375
Investment securities available for sale	188,080,483	136,214,232
Loans held for sale	73,150	584,380
Loans	387,188,353	357,907,840
Less allowance for loan losses	5,927,823	6,867,370
Net loans	381,260,530	351,040,470
Premises and equipment	14,132,706	15,078,798
Goodwill	1,668,699	1,668,699
Regulatory stock	6,867,400	4,794,900
Bank-owned life insurance	12,936,583	12,517,831
Accrued interest and other assets	9,693,018	9,508,580
TOTAL ASSETS	$ 630,132,117	$ 557,574,887
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 57,821,658	$ 55,046,956
Interest-bearing demand	8,361,927	9,658,721
Savings	51,305,439	47,336,921
Money market	188,625,283	189,715,682
Time	188,259,308	158,691,542
Total deposits	494,373,615	460,449,822
Short-term borrowings	4,414,579	4,157,290
Other borrowings	86,073,842	42,121,094
Accrued interest and other liabilities	4,589,446	4,594,956
TOTAL LIABILITIES	589,451,482	511,323,162
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, 1,348,750 and 674,375 shares issued in 2013 and 2012, respectively	674,375	337,187
Additional paid-in capital	3,126,097	3,376,514
Retained earnings	47,231,553	45,323,860
Accumulated other comprehensive (loss) income	(5,042,042)	2,907,315
Treasury stock, at cost (130,736 and 134,760 shares in 2013 and 2012, respectively)	(5,309,348)	(5,693,151)
TOTAL STOCKHOLDERS' EQUITY	40,680,635	46,251,725
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 630,132,117	$ 557,574,887

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

	Year Ended December 31, 2013	2012
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 16,822,468	$ 17,767,995
Exempt from federal income tax	985,438	956,766
Interest and dividends on investment securities:		
Taxable	2,972,983	2,077,035
Exempt from federal income tax	1,334,865	1,180,783
Interest-bearing deposits with other institutions	61,967	128,265
Other dividend income	165,741	102,529
Total interest and dividend income	22,343,462	22,213,373
INTEREST EXPENSE		
Deposits	2,998,445	3,412,997
Short-term borrowings	114,516	94,657
Other borrowings	1,693,949	1,889,289
Total interest expense	4,806,910	5,396,943
NET INTEREST INCOME	17,536,552	16,816,430
Provision for loan losses	(900,000)	270,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,436,552	16,546,430
NONINTEREST INCOME		
Service fees on deposit accounts	1,597,716	1,573,098
Investment securities gains, net	461,842	797,324
Investment securities other than temporary impairment loss	(117,500)	-
Gain on sale of loans, net	1,059,328	1,901,882
Earnings on bank-owned life insurance	416,184	416,414
Insurance commissions	931,873	888,876
Travel agency commissions	212,552	194,174
Other	1,896,595	1,141,168
Total noninterest income	6,458,590	6,912,936
NONINTEREST EXPENSE		
Salaries and employee benefits	11,353,347	10,449,906
Occupancy and equipment	2,568,023	2,435,665
Data processing	1,748,436	1,683,149
Professional fees	330,564	392,961
Advertising	311,999	414,113
Federal deposit insurance	434,577	743,008
Pennsylvania shares tax	494,076	440,052
Other	2,673,531	2,731,640
Total noninterest expense	19,914,553	19,290,494
Income before income taxes	4,980,589	4,168,872
Income taxes	763,716	539,078
NET INCOME	$ 4,216,873	$ 3,629,794
EARNINGS PER SHARE		
Basic	$ 3.54	$ 3.05
Diluted	3.51	3.05

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Year Ended December 31, 2013	2012
Net income	$ 4,216,873	$ 3,629,794
Other comprehensive (loss) income:		
Securities available for sale:		
Change in unrealized holding (losses) gains on available-for-sale securities	(11,700,139)	1,464,984
Tax effect	3,978,048	(498,095)
Reclassification adjustment for net gains realized in net income	(461,842)	(797,324)
Tax effect	157,026	271,091
Impairment losses included in net income	117,500	-
Tax effect	(39,950)	-
Total other comprehensive (loss) income	(7,949,357)	440,656
Total comprehensive (loss) income	$ (3,732,484)	$ 4,070,450

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 (Loss) Income	Treasury Stock	Total Stockholders' Equity
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 ($1.62 per share)			(1,960,051)			(1,960,051)
Sale of new issue common stock (21,166 shares)	5,291	619,766				625,057
Purchase of treasury stock (8,838 shares)					(269,245)	(269,245)
Sale of treasury stock (5,438 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
Net income			4,216,873			4,216,873
Other comprehensive loss, net of tax				(7,949,357)		(7,949,357)
Stock option compensation expense		34,527				34,527
Purchase of shares by restricted stock plan		(405,800)			405,800	-
Stock split effected in the form of a dividend (674,375 shares)	337,188		(337,188)			-
Forfeiture of shares by restricted stock plan		73,120			(73,120)	-
Amortization of unearned restricted stock plan shares		237,596				237,596
Cash dividends ($1.62 per share)			(1,971,992)			(1,971,992)
Purchase of treasury stock (5,938 shares)					(201,013)	(201,013)
Sale of treasury stock (5,181 shares)		(189,860)			252,136	62,276
Balance, December 31, 2013	$ 674,375	$ 3,126,097	$ 47,231,553	$ (5,042,042)	$ (5,309,348)	$ 40,680,635

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

	Year Ended December 31, 2013	2012
OPERATING ACTIVITIES		
Net income	$ 4,216,873	$ 3,629,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(900,000)	270,000
Investment securities gains, net	(461,842)	(797,324)
Investment securities impairment loss	117,500	-
Proceeds from sale of loans held for sale	31,374,585	47,056,498
Origination of loans held for sale	(29,804,027)	(44,337,620)
Gain on sales of loans, net	(1,059,328)	(1,901,882)
Depreciation, amortization, and accretion	1,324,709	1,112,213
Deferred income taxes	160,625	31,885
Increase (decrease) in accrued interest receivable	(271,137)	282,921
Increase (decrease) in accrued interest payable	24,633	(182,013)
Earnings on bank-owned life insurance	(416,184)	(416,414)
Decrease in prepaid federal deposit insurance	19,663	709,737
Loss on sale of other assets	-	-
Other, net	2,173,573	(364,059)
Net cash provided by operating activities	6,499,643	5,093,736
INVESTING ACTIVITIES		
Maturities of certificates of deposit	1,394,375	250,000
Purchase of certificates of deposit	-	(1,004,542)
Investment securities available for sale:		
Proceeds from sale of investments	16,873,095	21,211,034
Proceeds from repayments and maturities	17,242,435	28,756,606
Purchases	(95,876,698)	(72,690,346)
(Increase) decrease in loans, net	(29,809,849)	10,025,751
Purchase of regulatory stock	(3,095,200)	(962,436)
Redemption of regulatory stock	1,022,700	206,000
Purchase of premises and equipment	(117,586)	(1,901,683)
Proceeds from sale of other real estate owned	490,910	894,098
Net cash used for investing activities	(91,875,818)	(15,215,518)
FINANCING ACTIVITIES		
Increase in deposits, net	33,923,793	5,786,760
Increase (decrease) in short-term borrowings, net	257,289	(1,538,872)
Proceeds from other borrowings	54,946,653	2,000,000
Repayments of other borrowings	(10,993,905)	(11,928,824)
Proceeds from sale of common stock	-	625,057
Purchases of treasury stock	(201,013)	(269,245)
Proceeds from sale of treasury stock	62,276	17,808
Cash dividends	(1,971,992)	(1,960,051)
Net cash provided by (used for) financing activities	76,023,101	(7,267,367)
Decrease in cash and cash equivalents	(9,353,074)	(17,389,149)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,792,622	41,181,771
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,439,548	$ 23,792,622
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 4,782,277	$ 5,578,956
Income taxes	395,000	685,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	$ 489,793	$ 826,710
Payment of stock dividend	337,188	-
Investment sales not settled	-	2,066,250

See accompanying notes to consolidated financial statements.

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, Kish Bank (the "Bank"), Kish Travel Services, Inc., and the Bank's subsidiary, Kish Agency, Inc. 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 Pennsylvania Department of Banking and Securities 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.

The consolidated financial statements include the accounts of Kish Bancorp, Inc., and its subsidiaries, Kish 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, 2013 and 2012. 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

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 as regulatory stock.

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 fair value. 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 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 $311,999 and $414,113 for 2013 and 2012, 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 Split

The Board of Directors declared a two-for-one stock split effected in the form of a stock dividend payable May 27, 2013. All references to share and per share amounts in the consolidated financial statements, except the Consolidated Balance Sheet, and accompanying notes to the consolidated financial statements have been retroactively restated to reflect the stock split.

Stock Options

As of December 31, 2013 and 2012, the Company recorded compensation expense of $34,527 and $46,863 related to share-based compensation awards. At December 31, 2013, there was approximately $17,367 in unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next three 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)
2013	4.86 %	1.95 %	10.66 %	10.00
2012	5.79 %	3.27 %	17.71 %	10.00

The weighted-average fair value of each stock option granted for 2013 and 2012 was $0.86 and $0.95, respectively. There were no stock options exercised during the years ended December 31, 2013 and 2012.

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, 2013 and 2012, the Company recorded gross servicing rights of $742,128 and $671,967 with a reserve for impairment of $259,865 and $315,477, 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.

	2013	2012
Weighted-average common shares outstanding	1,348,748	1,344,764
Average treasury stock shares	(132,493)	(134,606)
Average unearned nonvested restricted share plan shares	(23,500)	(20,936)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,192,755	1,189,222
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	318	544
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	7,696	1,846
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	1,200,769	1,191,612

Options to purchase 111,752 shares of common stock at a price of $33.25 to $48.38 as of December 31, 2013, and 19,404 shares of restricted stock ranging in price from $25.50 to $35.00 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

Options to purchase 137,252 shares of common stock at a price of $25.50 to $48.38, as of December 31, 2012, and 17,602 shares of restricted stock ranging in price from $25.50 to $38.18 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:

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 18,561,953	$ -	$ (1,201,833)	$ 17,360,120
U.S. government agency securities	65,628,145	31,431	(5,081,769)	60,577,807
Obligations of states and political subdivisions	62,046,304	1,363,020	(1,460,544)	61,948,780
Corporate securities	15,811,281	92,517	(453,734)	15,450,064
Mortgage-backed securities in government-sponsored entities	33,524,915	183,434	(1,193,500)	32,514,849
Total debt securities	195,572,598	1,670,402	(9,391,380)	187,851,620
Equity securities in financial institutions	147,340	81,523	-	228,863
Total	$ 195,719,938	$ 1,751,925	$ (9,391,380)	$ 188,080,483

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	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

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, 2013 and 2012.

	2013					
	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	$ 15,510,740	$ (1,013,136)	$ 1,849,380	$ (188,697)	$ 17,360,120	$ (1,201,833)
U.S. government agency securities	53,959,407	(4,606,460)	4,598,130	(475,309)	58,557,537	(5,081,769)
Obligations of states and political subdivisions	23,469,685	(1,308,822)	1,218,147	(151,722)	24,687,832	(1,460,544)
Corporate securities	11,718,297	(450,044)	496,310	(3,690)	12,214,607	(453,734)
Mortgage-backed securities in government-sponsored entities	20,855,574	(1,193,500)	-	-	20,855,574	(1,193,500)
Total	$ 125,513,703	$ (8,571,962)	$ 8,161,967	$ (819,418)	$ 133,675,670	$ (9,391,380)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	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)

U.S. treasury securities. The unrealized loss on ten 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, 2013.

U.S. government agency securities. The unrealized loss on 51 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, 2013.

Obligations of states and political subdivisions. The Company's unrealized losses on 44 municipal bonds relate to investments within the governmental service sector. The unrealized losses are primarily caused by interest rate increases. 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, 2013.

Mortgage-backed securities in government-sponsored entities. The unrealized losses on 15 of the Company's investments in mortgage-backed securities were caused by interest rate increases. The Company purchased 14 of these investments at a premium relative to its face amount, and the contractual cash flows of the investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities 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 investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

Corporate securities. The Company had unrealized losses on investments in 20 different debt securities that were primarily the result of interest rate increases. The Company currently does not believe it is probable that it will be unable to collect all amounts due, other than the security described below, according to the contractual terms of the investments. Because 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 the investments before recovery of the amortized cost basis, it does not consider these investments to be other- than- temporarily impaired at December 31, 2013.

During the year ended December 31, 2013, management recorded an other-than-temporary impairment loss of $117,500 on a pre-tax basis for one security. It was determined by management in the current year to utilize a Level II valuation for the security instead of the Level III method utilized in prior years due to improvements in the activity for the security. Of the recorded loss, all $117,500 was determined to be credit related and recognized in earnings and none was determined to be attributable to other factors and recognized in accumulated other comprehensive (loss) income.

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, 2013.

The amortized cost and fair value of debt securities at December 31, 2013, 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	$ 2,675,686	$ 2,701,747
Due after one year through five years	14,793,316	15,177,414
Due after five years through ten years	104,322,383	99,933,848
Due after ten years	73,781,213	70,038,611
Total	$ 195,572,598	$ 187,851,620

Investment securities with a carrying value of $71,388,656 and $75,688,114 at December 31, 2013 and 2012, 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:

	2013	2012
Proceeds from sales	$ 16,873,095	$ 21,211,034
Gross gains	512,423	814,552
Gross losses	50,581	17,228
Other-than-temporary impairment loss	117,500	-

4. LOANS

Major classifications of loans are summarized as follows:

	2013	2012
Commercial real estate	$ 125,959,918	$ 113,792,683
Commercial and industrial	51,447,386	54,280,110
Agricultural	19,588,155	19,824,927
State and political subdivisions	30,282,161	24,657,876
Consumer	7,219,608	6,551,541
Residential real estate	152,691,125	138,800,703
	387,188,353	357,907,840
Less allowance for loan losses	5,927,823	6,867,370
Net loans	$ 381,260,530	$ 351,040,470

Mortgage loans serviced by the Company for others amounted to $74,621,700 and $69,900,031 at December 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013, is as follows:

2012	Additions	Amounts Collected	2013
$ 8,989,462	$ 7,931,823	$ 12,451,249	$ 4,470,036

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 2013, management elevated the qualitative factors reserve percentage for the residential real estate pool of loans because of the changes in the volume of loans and changes in the lending policy due to the new regulations for residential lending. In 2012, changes in lending staff experience and ability contributed to the increase in factor percentages for various loan pools. The change in credit staff experience and ability factor percentage was increased because of the resignation of the Chief Credit Officer. Late in 2012, the bank hired a new Chief Credit Officer with over 40 years of experience in the banking industry. Over the year, the addition of an experienced Chief Credit Officer has resulted in lowered potential risk and has led the Bank to revert the increase in this reserve factor for commercial loans. Changes in the volume and severity of past dues, non-accruals, and classified loans have also contributed to a decrease in the reserve levels of commercial loans with continued improvement in the level of classified loans. With improvement in the competitive landscape, the reserve factors related to commercial loans were decreased slightly. All other pools of loans were left unchanged due to continued severity of regulatory requirements as a consequence of the Dodd-Frank Act. No significant changes have been noted in the market value of real estate or the unemployment numbers within the Bank's primary market area; accordingly, the reserve levels related to these factors were left unchanged from 2012.

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 the lowest risk 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:

	2013							
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,646,720	$ 1,692,945	$ 223,688	$ 132,014	$ 56,185	$ 814,169	$ 1,301,649	$ 6,867,370
Charge-offs	(5,658)	-	-	-	(16,772)	(27,341)	-	(49,771)
Recoveries	1,349	1,390	3,600	-	2,754	1,131	-	10,224
Provision	(96,821)	(611,835)	(8,162)	32,334	11,565	298,527	(525,608)	(900,000)
Ending balance	$ 2,545,590	$ 1,082,500	$ 219,126	$ 164,348	$ 53,732	$ 1,086,486	$ 776,041	$ 5,927,823
Ending balance individually evaluated for impairment	$ 498,957	$ 390,932	$ -	$ -	$ -	$ 3,000	$ -	$ 892,889
Ending balance collectively evaluated for impairment	$ 2,046,633	$ 691,568	$ 219,126	$ 164,348	$ 53,732	$ 1,083,486	$ 776,041	$ 5,034,934
Loans:								
Individually evaluated for impairment	$ 5,532,518	$ 1,172,958	$ 439,606	$ 106,720	$ 1,800	$ 853,983	$ -	$ 8,107,585
Collectively evaluated for impairment	120,427,400	50,274,428	19,148,549	30,175,441	7,217,808	151,837,142	-	379,080,768
Ending balance	$ 125,959,918	$ 51,447,386	$ 19,588,155	$ 30,282,161	$ 7,219,608	$ 152,691,125	$ -	$ 387,188,353

	2012							
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,714,374	$ 1,736,219	$ 229,406	$ 135,388	$ 57,623	$ 834,980	$ 1,334,921	$ 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	199,869	(21,690)	17,658	(3,374)	103,415	7,394	(33,272)	270,000
Ending balance	$ 2,646,720	$ 1,692,945	$ 223,688	$ 132,014	$ 56,185	$ 814,169	$ 1,301,649	$ 6,867,370
Ending balance individually evaluated for impairment	$ 309,060	$ 642,765	$ -	$ -	$ -	$ 25,240	$ -	$ 977,065
Ending balance collectively evaluated for impairment	$ 2,337,660	$ 1,050,180	$ 223,688	$ 132,014	$ 56,185	$ 788,929	$ 1,301,649	$ 5,890,305
Loans:								
Individually evaluated for impairment	$ 4,263,950	$ 1,138,112	$ 407,170	$ -	$ -	$ 1,294,374	$ -	$ 7,103,606
Collectively evaluated for impairment	109,528,733	53,141,998	19,417,757	24,657,876	6,551,541	137,506,329	-	350,804,234
Ending balance	$ 113,792,683	$ 54,280,110	$ 19,824,927	$ 24,657,876	$ 6,551,541	$ 138,800,703	$ -	$ 357,907,840

Reserve requirement for commercial real estate loans decreased by $101,130 from 2013 to 2012, while those for commercial and industrial loans decreased by $610,445 during the same period. This was a direct result of decreases during 2013 of criticized and classified assets which at $10.8 million at December 31, 2013, indicates a 4.40 percent or $0.5 million decrease from December 31, 2012. 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, 2013 and 2012, 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.

2013	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 115,161,687	$ 47,349,424	$ 17,457,107	$ 30,282,161	$ 210,250,379
Special Mention	2,901,867	2,712,998	886,505	-	6,501,370
Substandard	7,857,972	1,384,964	1,244,543	-	10,487,479
Doubtful	38,392	-	-	-	38,392
Loss	-	-	-	-	-
Total	$ 125,959,918	$ 51,447,386	$ 19,588,155	$ 30,282,161	$ 227,277,620

2012	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 102,497,213	$ 46,361,397	$ 18,396,130	$ 24,657,876	$ 191,912,616
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	$ 113,792,683	$ 54,280,110	$ 19,824,927	$ 24,657,876	$ 212,555,596

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:

2013	Consumer	Residential Real Estate	Total
Performing	$ 7,169,056	$ 152,078,369	$ 159,247,425
Nonperforming	50,552	612,756	663,308
Total	$ 7,219,608	$ 152,691,125	$ 159,910,733

2012	Consumer	Residential Real Estate	Total
Performing	$ 6,551,541	$ 137,973,341	$ 144,524,882
Nonperforming	-	827,362	827,362
Total	$ 6,551,541	$ 138,800,703	$ 145,352,244

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:

2013	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	$ 1,686,378	$ -	$ 2,169,976	$ 3,856,354	$ 122,103,564	$ 125,959,918	$ -
Commercial and industrial	104,510	46,041	607,175	757,726	50,689,661	51,447,387	-
Agricultural	-	-	-	-	19,588,155	19,588,155	-
State and political subdivisions	-	-	-	-	30,282,161	30,282,161	-
Consumer	50,262	290	-	50,552	7,169,056	7,219,608	-
Residential real estate	207,702	17,792	387,261	612,755	152,078,369	152,691,124	-
Total	$ 2,048,852	$ 64,123	$ 3,164,412	$ 5,277,387	$ 381,910,966	$ 387,188,353	$ -

Age Analysis of Past-Due Loans by Class (Continued)

	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	$ 145,128	$ 27,099	$ 3,208,547	$ 3,380,774	$ 110,411,909	$ 113,792,683	$ -
Commercial and industrial	92,461	81,851	24,497	198,809	54,081,301	54,280,110	-
Agricultural	-	3,675	323,002	326,677	19,498,250	19,824,927	-
State and political subdivisions	112,696	-	-	112,696	24,545,180	24,657,876	-
Consumer	139,288	5,339	-	144,627	6,406,914	6,551,541	3,676
Residential real estate	418,378	37,862	827,362	1,283,602	137,517,101	138,800,703	-
Total	$ 907,951	$ 155,826	$ 4,383,408	$ 5,447,185	$ 352,460,655	$ 357,907,840	$ 3,676

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.

Impaired Loans (Continued)

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

	2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 4,941,131	$ 4,941,131	$ -	$ 3,786,578	$ -
Commercial and industrial	513,708	513,708	-	272,439	-
Agricultural	439,606	439,606	-	309,261	216
State and political subdivisions	106,720	106,720	-	113,558	181
Consumer	1,800	1,800	-	150	
Residential real estate	830,136	830,136	-	723,120	26,883
	6,833,101	6,833,101	-	5,205,106	27,280
With an allowance recorded:					
Commercial real estate	591,387	591,387	498,957	741,525	43,204
Commercial and industrial	659,250	659,250	390,932	754,885	58,859
Agricultural	-	-	-	-	-
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	-	-
Residential real estate	23,847	23,847	3,000	89,302	-
	1,274,484	1,274,484	892,889	1,585,712	102,063
Total:					
Commercial real estate	5,532,518	5,532,518	498,957	4,528,103	43,204
Commercial and industrial	1,172,958	1,172,958	390,932	1,027,324	58,859
Agricultural	439,606	439,606	-	309,261	216
State and political subdivisions	106,720	106,720	-	113,558	181
Consumer	1,800	1,800	-	150	-
Residential real estate	853,983	853,983	3,000	812,422	26,883
Total	$ 8,107,585	$ 8,107,585	$ 892,889	$ 6,790,818	$ 129,343

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 3,315,295	$ 3,315,295	$ -	$ 3,486,939	$ 32,786
Commercial and industrial	206,195	206,195	-	303,323	10,993
Agricultural	407,170	407,170	-	252,420	-
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	-	-
Residential real estate	862,373	862,373	-	943,036	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	-
Commercial and industrial	931,917	931,917	642,765	950,295	2,955
Agricultural	-	-	-	6,251	-
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	35,377	-
Residential real estate	432,001	432,001	25,240	404,004	-
	2,312,573	2,312,573	977,065	3,142,366	2,955
Total:					
Commercial real estate	4,263,950	4,263,950	309,060	5,233,378	32,786
Commercial and industrial	1,138,112	1,138,112	642,765	1,253,618	13,948
Agricultural	407,170	407,170	-	258,671	-
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	35,377	-
Residential real estate	1,294,374	1,294,374	25,240	1,347,040	753
Total	$ 7,103,606	$ 7,103,606	$ 977,065	$ 8,128,084	$ 47,487

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:

	2013	2012
Commercial real estate	$ 4,307,478	$ 4,263,945
Commercial and industrial	763,760	1,127,286
Agricultural	290,389	407,170
State and political subdivisions	-	-
Consumer	-	-
Residential real estate	576,149	1,305,205
Total	$ 5,937,776	$ 7,103,606

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, 2013, a specific reserve allocation of $19,000 has been established against the troubled debt restructurings. Also, as of December 31, 2013, 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:

	2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	5	$ 1,988,730	$ 1,988,730
Commercial and industrial	5	525,680	525,680
Agricultural	-	-	-
State and political subdivisions	1	109,487	109,487
Consumer	1	68,528	68,528
Residential real estate	2	154,370	154,370
Total	14	$ 2,846,795	$ 2,846,795

	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

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2013	2012
Land and land improvements	$ 793,458	$ 793,458
Building and leasehold improvements	16,699,029	16,623,584
Furniture, fixtures, and equipment	5,559,109	5,530,468
	23,051,596	22,947,510
Less accumulated depreciation	8,918,890	7,868,712
Total	$ 14,132,706	$ 15,078,798

Depreciation and amortization charged to operations was $1,063,679 in 2013 and $1,034,512 in 2012.

7. GOODWILL

As of each of the years ended December 31, 2013 and 2012, 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, 2013 and 2012.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2014	$ 81,538,278
2015	28,826,249
2016	18,964,312
2017	10,851,753
2018	24,879,773
Thereafter	23,198,943
	$ 188,259,308

The aggregate of all time deposit accounts of $100,000 or more amounted to $77,823,755 and $54,466,112 at December 31, 2013 and 2012, 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, 2013 and 2012, 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:

	2013	2012
Balance at year-end	$ 4,414,579	$ 4,157,290
Average balance outstanding	7,146,587	6,354,923
Maximum month-end balance	14,546,188	11,001,139
Weighted-average rate at year-end	2.51%	2.50%
Weighted-average rate during the year	1.60%	1.43%

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, 2013	At December 31, 2012
Fixed rate	01/02/14	02/28/22	1.26 %	0.24 %	4.96 %	$ 59,359,450	$ 25,014,605
Fixed rate amortizing	07/08/15	04/24/23	1.97	1.68	6.53	15,878,392	3,170,489
Mid-term repos	n/a	n/a	n/a	n/a	n/a	-	3,000,000
Subordinated capital notes	03/23/19	03/02/21	7.84	3.86	8.50	4,650,000	4,750,000
Note payable	03/17/35	11/23/35	4.21	2.31	6.11	6,186,000	6,186,000
						$ 86,073,842	$ 42,121,094

Maturities of other borrowings at December 31, 2013, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2014	$ 12,217,600	1.33 %
2015	7,825,268	1.74
2016	19,512,000	0.77
2017	8,059,118	1.78
2018	6,711,203	1.30
2019 and after	31,748,653	3.17
	$ 86,073,842	1.95 %

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, 2013, the Bank's maximum borrowing capacity with the FHLB was approximately $191 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, 2013, is approximately $14.8 million.

10. OTHER BORROWINGS (Continued)

The Bank also maintains a $10.0 million and $5.0 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, 2013.

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:

	2013	2012
Current	$ 603,091	$ 507,193
Deferred	160,625	31,885
Total provision	$ 763,716	$ 539,078

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:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 2,015,460	$ 2,334,906
Deferred compensation	245,420	213,444
Core deposit intangible assets	24,382	24,382
Alternative minimum tax carryforward	653,531	519,020
Asset valuation allowances	230,344	348,672
Employee compensation accruals	330,512	275,083
Nonaccrual interest receivable	231,618	166,997
Capital loss carryforward	117,401	232,403
Unrealized loss on available-for-sale securities	2,597,415	-
Other	2,000	2,940
Deferred tax assets	6,448,083	4,117,847
Deferred tax liabilities:		
Premises and equipment	942,803	1,088,401
Goodwill	550,876	550,359
Deferred loan fees	99,472	116,088
Partnerships	272,332	229,620
Other	17,840	5,417
Unrealized gain on available-for-sale securities	-	1,497,709
Deferred tax liabilities	1,883,323	3,487,594
Net deferred tax assets	$ 4,564,760	$ 630,253

11. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2013 and 2012, 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.

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

	2013		2012	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,693,400	34.0 %	$ 1,417,418	34.0 %
Tax-exempt interest	(788,903)	(15.9)	(726,767)	(17.4)
Life insurance income	(106,239)	(2.1)	(96,343)	(2.3)
Other	(34,542)	(0.7)	(55,230)	(1.3)
Actual tax expense and effective rate	$ 763,716	15.3 %	$ 539,078	13.0 %

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 2009 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 $269,876 and $251,048 for the years ended December 31, 2013 and 2012, respectively. The fair value of plan assets includes $822,066 and $705,376 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2013 and 2012, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan that allows directors to defer fees. Outstanding balances under this arrangement for 2013 and 2012 were $721,824 and $627,775, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were $101,914 and $50,398 for December 31, 2013 and 2012, 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 24,000 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 $237,596 and $203,857 for the years ended December 31, 2013 and 2012, respectively.

The following is a summary of the status of the Company's restricted stock as of December 31, 2013, and changes therein during the year then ended:

	Number of Shares of Restricted Stock	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2013	20,288	$ 30.77
Granted	9,877	33.43
Vested	(7,233)	31.65
Forfeited	(2,440)	34.35
Nonvested at December 31, 2013	20,492	$ 31.78

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, 2013	158,272	$ 37.62
Granted	28,100	33.34
Exercised	-	-
Forfeited	(6,336)	45.63
Outstanding, December 31, 2013	180,036	$ 36.67
Exercisable at year-end	119,701	$ 30.19

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table summarizes the characteristics of stock options at December 31, 2013:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
03/16/04	$ 45.63	6,900	0.20	$ 45.63	6,900	$ 45.63
05/26/04	47.00	1,468	0.40	47.00	1,468	47.00
06/30/04	48.38	5,236	0.49	48.38	5,236	48.38
01/05/05	46.50	16,254	1.01	46.50	16,254	46.50
02/03/05	46.50	760	1.09	46.50	760	46.50
02/09/05	46.50	52	1.11	46.50	52	46.50
02/10/05	47.50	200	0.21	47.50	200	47.50
02/24/05	48.00	84	1.15	48.00	84	48.00
03/29/05	48.00	6	1.24	48.00	6	48.00
04/26/05	48.00	882	1.32	48.00	882	48.00
07/08/05	48.00	666	1.52	48.00	666	48.00
12/08/05	47.50	2,802	1.93	47.50	2,802	47.50
12/10/05	47.63	6	1.94	47.63	6	47.63
12/16/05	47.50	300	1.96	47.50	300	47.50
12/22/05	47.50	8,880	1.97	47.50	8,880	47.50
01/25/07	44.00	1,090	3.07	44.00	1,090	44.00
02/23/07	45.00	1,050	3.15	45.00	1,050	45.00
01/31/08	38.18	13,500	3.08	38.18	13,500	38.18
03/26/09	25.50	19,600	5.23	25.50	19,200	25.50
10/27/09	35.00	2,000	5.82	35.00	2,000	35.00
04/01/10	34.13	20,600	6.25	34.13	13,596	34.13
04/28/11	29.75	23,600	7.24	29.75	15,576	29.75
10/11/11	31.00	1,000	7.77	31.00	660	31.00
12/22/11	28.00	600	7.98	28.00	400	28.00
04/02/12	30.00	24,400	8.24	30.00	8,133	30.00
04/01/13	33.25	28,100	9.25	33.25	-	33.25
		180,036			119,701	

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:

	2013	2012
Commitments to extend credit	$ 103,035,768	$ 106,638,654
Standby letters of credit	5,146,000	5,424,804
Total	$ 108,181,768	$ 112,063,458

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 its 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, 2013, are as follows:

	Minimum Lease Payment
2014	$ 290,569
2015	286,609
2016	252,940
2017	252,940
2018	252,940
Thereafter	3,658,435
Total	$ 4,994,433

Rent expense under leases for each of the years ended December 31, 2013 and 2012, was $300,945 and $364,896, 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, 2013 and 2012, was $1,656,000 and $1,503,000, 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 Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2013, the Bank had a capital surplus of $3,236,250, which was not available for distribution to the Company as dividends.

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, 2013 and 2012, 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:

	2013		2012	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 61,373,773	13.17 %	$ 58,458,296	14.05 %
For capital adequacy purposes	37,294,894	8.00	33,288,986	8.00
To be well capitalized	46,618,618	10.00	41,611,233	10.00
Tier I capital (to risk-weighted assets)				
Actual	$ 50,568,087	10.85 %	$ 48,203,132	11.58 %
For capital adequacy purposes	18,647,447	4.00	16,644,493	4.00
To be well capitalized	27,971,171	6.00	24,966,740	6.00
Tier I capital (to average assets)				
Actual	$ 50,568,087	7.96 %	$ 48,203,132	8.63 %
For capital adequacy purposes	25,415,096	4.00	22,334,023	4.00
To be well capitalized	31,768,871	5.00	27,917,528	5.00

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

	2013		2012	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 62,402,925	13.45 %	$ 58,557,150	14.14 %
For capital adequacy purposes	37,115,336	8.00	33,124,360	8.00
To be well capitalized	46,394,171	10.00	41,405,450	10.00
Tier I capital (to risk-weighted assets)				
Actual	$ 56,302,396	12.14 %	$ 53,100,024	12.82 %
For capital adequacy purposes	18,557,668	4.00	16,562,180	4.00
To be well capitalized	27,836,502	6.00	24,843,270	6.00
Tier I capital (to average assets)				
Actual	$ 56,302,396	8.89 %	$ 53,100,024	9.55 %
For capital adequacy purposes	25,339,017	4.00	22,247,473	4.00
To be well capitalized	31,673,771	5.00	27,809,341	5.00

16. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical 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, 2013 and 2012, 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, 2013			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 17,360,120	$ -	$ 17,360,120
U.S. government agency securities	-	60,577,807	-	60,577,807
Obligations of states and political subdivisions	-	61,948,780	-	61,948,780
Corporate securities	-	15,450,064	-	15,450,064
Mortgage-backed securities in government-sponsored entities	-	32,514,849	-	32,514,849
Total debt securities	-	187,851,620	-	187,851,620
Equity securities in financial institutions	228,863	-	-	228,863
Total	$ 228,863	$ 187,851,620	$ -	$ 188,080,483

	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 in financial institutions	218,244	-	-	218,244
Total	$ 218,244	$ 135,875,264	$ 120,724	$ 136,214,232

16. FAIR VALUE MEASUREMENTS (Continued)

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, 2013 and 2012.

		Corporate Securities
Balance, January 1, 2012	$	100,317
Sales		-
Net change on unrealized gain on investment securities available for sale		20,407
Balance, January 1, 2013		120,724
Sales		-
Net change on unrealized gain on investment securities available for sale		229,276
Transfer out of Level III		(350,000)
Balance, December 31, 2013	$	-

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2013 and 2012, 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 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 cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

	December 31, 2013			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 7,214,696	$ 7,214,696
Other real estate owned	-	-	237,150	237,150
Mortgage servicing rights	-	-	482,263	482,263

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 6,126,541	$ 6,126,541
Other real estate owned	-	-	287,385	287,385
Mortgage servicing rights	-	-	356,490	356,490

16. FAIR VALUE MEASUREMENTS (Continued)

The following tables provide a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2013 and 2012.

December 31, 2013	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 7,214,696	Property appraisals	Management discount for property type and recent market volatility	0% - 15% discount
Other real estate owned	$ 239,150	Property appraisals	Management discount for property type and recent market volatility	0% - 15% discount
Mortage servicing rights	$ 482,263	Discounted cash flows	Discount rate	2.96 - 3.98% discount
			Prepayment speeds	1.23 - 3.71 prepayment factor

December 31, 2012	Fair Value	Valuation Techniques	Unobservable Inputs	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 volatility	0% - 15% discount
Mortage servicing rights	$ 356,490	Discounted cash flows	Discount rate	2.11 - 2.75% discount
			Prepayment speeds	2.49 - 4.29 prepayment factor

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

2013	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$ 14,439,548	$ 14,439,548	$ 14,439,548	$ -	$ -
Certificates of deposit	980,000	980,000	980,000	-	-
Investment securities available for sale	188,080,483	188,080,483	228,863	187,851,620	-
Loans held for sale	73,150	73,150	73,150	-	-
Net loans	381,260,530	381,396,348	-	-	381,396,348
Regulatory stock	6,867,400	6,867,400	6,867,400	-	-
Bank-owned life insurance	12,936,583	12,936,583	12,936,583	-	-
Accrued interest receivable	2,077,235	2,077,235	2,077,235	-	-
Mortgage servicing rights	482,263	482,263	-	-	482,263
Financial liabilities:					
Deposits	$ 494,373,615	$ 494,836,282	$ 306,114,306	$ -	$ 188,721,976
Short-term borrowings	4,414,579	4,414,841	4,414,841	-	-
Other borrowings	86,073,842	85,169,364	-	-	85,169,364
Accrued interest payable	791,220	791,220	791,220	-	-

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	$ 460,449,822	$ 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	-	-

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.

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.

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in accumulated other comprehensive (loss) income by component net of tax for the year ended December 31, 2013:

		Net Unrealized Gains (Losses) on Investment Securities
Accumulated other comprehensive (loss) income, January 1, 2013	$	2,907,315
Other comprehensive loss before reclassification		(7,722,091)
Amounts reclassified from accumulated other comprehensive (loss) income		(227,266)
Accumulated other comprehensive (loss) income, December 31, 2013	$	(5,042,042)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive (loss) income for the year ended December 31, 2013:

		Amount Relcassified from Accumulated Other Comprehensive (Loss) Income	Affected Line Item in the Statement Where Net Income Is Presented
Unrealized gains (losses) on investment securities	$	(461,842)	Investment securities gains, net
		157,026	Income taxes
	$	(304,816)	
Other than temporary impairment losses	$	117,500	Investment securities impairment loss
		(39,950)	Income taxes
	$	77,550	

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 24, 2014, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

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