



**CLEARLY
FOCUSED**



2014 ANNUAL REPORT

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

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CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Kish Bancorp registered another year of strong performance in 2014.

The Corporation had positive gains in earnings, loans and deposits, and in the revenues from its related affiliates, Kish Financial Solutions, Kish Insurance, and Kish Travel. At the same time, the Kish team made significant progress in improving the Corporation's structure, processes, and capacity to deliver and maintain superior client services. We were pleased to announce that Kish Bank was recognized for the eighth 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 the competition and banking industry peers. With a healthy balance sheet, an improved tolerance for risk, and the team's focus on learning and mastering new and better ways to serve internal and external clients, there is good cause for optimism regarding the Corporation's ability not only to sustain the strong performance trends of recent years, but also to seize opportunities for growth.

In 2014, the team achieved this strengthened position in a competitive marketplace by maintaining an unwavering focus on Kish's customers. During the year, clients validated this focus by giving Kish very high marks in a Customer Satisfaction Survey conducted for Kish Bank by an experienced survey company widely recognized within the financial services industry. It was gratifying to learn that a robust sample of Kish Bank customers across the three-county region rated their experiences with Kish in the high 90 percentages in areas including staff knowledge, speed of service, accuracy, timeliness of statements, and the design and comfort of our facilities—all high priority areas. What was the one thing they liked best about Kish? The people: their knowledge, friendliness, and professionalism. Indeed, in a world that grows less service-oriented with each passing year, the Kish team's professionalism and client focus is clearly a differentiating factor for Kish.

At Kish, we get that. It is the reason why the theme of the 2014 Annual Report is a simple one: Clearly Focused. After one of the most difficult periods in banking history, we believe the stars for Kish are clearly aligned, and that the clear focus on serving clients exceptionally well can now lead to a period of strong growth and sustained financial performance. The basis for that positive outlook is rooted in the excellent foundation laid over the past several years and the record performance achieved in 2014.

Highlights for the year are as follows:

- Record net income and net interest income
- New highs for loans outstanding
- Growth in the depth and breadth of the Kish team
- Continued strength in Kish Bank's credit quality measures
- Robust results by the wealth management, insurance, and travel divisions
- Reduced noninterest expenses
- Double-digit expansion in total shareholders' equity
- Increased dividend levels



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

In addition to the foregoing key performance metrics, 2014 also registered several enhancements to the Kish team. We welcomed Ed Friedman to the Kish Bank and Kish Bancorp Boards of Directors, bringing with him not only a wealth of knowledge in residential and commercial development, but also a deep commitment to the long-term future of the central Pennsylvania areas we serve.

We also are pleased to note new additions to our regional boards in Huntingdon and Centre counties. Francis Vaughn, Vice President for Human Resources at Mutual Benefit Group in Huntingdon, joined the Huntingdon County Regional Board in August. Paul Silvis, the founder of Restek Corporation and currently Head Coach of SilcoTek Corporation, joined the Centre County Regional Board. Paul is a leader and innovator strongly committed to providing opportunities to employees on his team, as well as supporting the central Pennsylvania community.

We also gratefully acknowledge the continued growth of our leadership team recognized in the appointment of Peter Collins to the position of Executive Vice President and Chief Credit Officer at the Bank. Peter brings thirty years of increasing responsibility in credit at both large and intermediate size banks, ranging across and including commercial and industrial lending, credit policy, credit analysis, real estate lending, and commercial real estate lending. We expanded our wealth management and trust services in Centre County with the addition in 2014 of Daniel Keane, Vice President and Wealth Management Advisor and Trust Officer. Dan comes to us with twenty-five years of experience in the industry. We also enhanced our Finance Department with the addition of Robert Crane as Senior Vice President and Profitability Director, who brings more than twenty years of experience in accounting and finance to Kish. Suzanne White was promoted to Senior Vice President and Human Resource Director, recognizing the expanding role that she plays in the growth and strategic progress of the Company. In addition, the promotions of Gregory Hayes and Debra Weikel to the positions of Executive Vice President, Head of Retail Banking and Client Solutions and Senior Vice President, Loan Administration, respectively, further enhanced Kish's focus on client services. The promotions support Kish's new structural alignment that focuses on proactive, centralized support of the Bank's sales and service functions, coupled with a centralized focus on providing direct client solutions.

I am also proud to say that the Kish family once again did its part in giving back to the community, working hard to support those causes important to Kish's communities, customers, and employees. During 2014, the team once again partnered with Kish's ambassador and advocate, Coquese Washington, Head Coach of Women's Basketball at Penn State. She has been a leader in growing the

Lady Lion Pink Zone, which raises funds to help support breast cancer programs at our local hospitals in Centre, Huntingdon, and Mifflin counties. Kish has supported this effort for three consecutive years and has raised a total of \$46,441. Kish Travel and Kish Insurance served as the presenting sponsor for the 2014–2015 season of Lady Lion Basketball, which brought attention, goodwill, and business to Kish. In addition, Kish supported literally dozens of other worthy causes across all of our markets, both financially and in person. These efforts are discussed later in this report.

As we conclude this review of another year of progress for Kish Bancorp, we want to express our heartfelt gratitude to you, our shareholders, for your continued support and encouragement. We are buoyed by your loyalty and confidence in Kish's business model, one that is central to the Corporation's extraordinary culture, the people and communities we serve, and our ambitious goals for the future.

Sincerely,



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



Clearly focused— Kish gets it right



For 115 years, Kish Bank and Kish Bancorp have maintained a clear and consistent client-focused approach to banking and financial services. The Corporation's highest priority, understanding and meeting clients' needs with exceptional care and quality, is built into Kish's brand promise with two simple words: Expect More. In 2014, the Corporation worked diligently across its four business lines—Kish Bank, Kish Financial Solutions, Kish Insurance, and Kish Travel—to sharpen its focus on providing superior client service while achieving strong and sustained results for shareholders. For every team member at Kish, this means getting it right every time.

Taking care of business and getting the details right is mission critical to any enterprise, but more so for financial service companies like Kish, companies that operate in a highly competitive environment subject to significant regulatory oversight, volatile economic forces, and global fraud threats. Kish must be able to manage all of these, while operating successfully for shareholders and our communities. The financial results and highlights included in this report validate that, in 2014, the Corporation achieved strong results across all key performance measures.

Kish Bancorp, a financial services and bank holding company, has at its core a successful and deeply rooted regional community bank. Kish Bank is guided by its locally focused board of directors and management team, and disciplined by a forward looking strategic planning process that has enabled it to grow and expand in a manner that is designed to provide the services of a big bank with the feel and care of a local bank.

Decisions are made promptly in the local communities Kish serves.

Terri Whitsel, Owner, TAZ Fitness
Burnham



Top: Richard and Shirley Hoffman
Lewistown

Middle: Dr. Robert Jeanmme
State College

Bottom: Valerie, David, and Dr. Christian Long
Huntingdon

This, combined with an unwavering commitment to customer service of the highest order, is the Kish hallmark. It is foundational to the business model and key to the Corporation's future growth and development.

So, in 2014, Kish set an important corporate objective to test performance relative to service quality standards. This effort included both one-on-one customer interviews conducted by internal staff, as well as a formal and anonymous questionnaire delivered online by a survey company widely respected in the industry. The one-on-one customer interviews engaged relationship managers across all of Kish's business lines. Customers who do business across multiple business units were identified to determine their assessment of the Kish business model.

The conversations that resulted led to a clear conclusion that these clients like doing business with Kish because Kish puts them first. What they said was that Kish listened to them, took the time to understand their goals, counseled them on their options, and ultimately provided them the financing and/or financial solutions they needed to help them achieve something that was important to them. They told us, most importantly, that what matters to them also matters to Kish. And that became the theme of a campaign that commenced in 2014 and continues into 2015. It is also represented in these pages.

At the end of this process, these clients allowed Kish to tell their stories across its three-county marketplace. Their stories were not only moving and inspiring; they also validated the role that a financial services company like Kish plays in the community. They provided an intimate behind-the-numbers understanding of the impact Kish has had on their lives. Featured clients were:

- A first time business owner who can't imagine banking anywhere else because Kish Bank has been able to deliver everything he has needed without losing the hometown feel he values.
- A local dentist who is intentional about pursuing business opportunities in his drive to provide a secure future for his young children. He feels that Kish actively partnered with him to find solutions tailored to his needs.
- A retiree and his wife, who trust Kish Financial Solutions with their personal investments; feel comfortable with everything about Kish Bank, from the tellers, to the assistant managers, to the executive team; and who consider Kish Travel services to be "bend-over-backwards" excellent.
- Women and small business owners who enjoy everything at Kish, from the one-stop shop service of our business bankers, to the tellers, to the travel team. For them, Kish's Wealth Management team makes it simple to offer a 401(k) to their employees, a nice benefit for them.
- A first time female business owner without extensive business experience who got not only the financing, but the encouragement and advice she needed to proceed in a manner that allows her to balance business and family life.
- A young, upwardly mobile professional couple with student loans who were so happy with their first mortgage experience with Kish Bank that they did not even consider looking anywhere else when they were ready to buy a larger home for their growing family, one they could share more widely with their extended family and friends.

These customers exemplify the kinds of business relationships Kish values. The knowledge that the work done by Kish associates helps businesses, individuals, families, and communities grow and prosper is a major force in motivating employees.

Kish also engaged the services of a widely respected survey research firm that worked to design and distribute a formal and anonymous online Customer Satisfaction Survey. Close to 500 clients responded promptly to the survey. With the exception of rating the convenience of the Bank's ATM locations, which was rated Truly Exceptional or Good by 81 percent of the respondents, all scores were in the nineties to high nineties. On the question, "Taking everything into consideration, how would you rate your overall experience with Kish Bank?" —95 percent of the respondents rated the Bank Truly Exceptional or Good. While it was gratifying to see data on this and other points of interest, the Corporation does not intend to rest on its laurels. Customer feedback will be secured routinely as a means to help Kish continue to improve the delivery of client service. At Kish, happy customers lead to the kinds of positive financial results contained in the pages of this report.

THE KISH TEAM

Kish Bancorp has an extraordinarily talented, dedicated, and responsive family of employees who diligently learn new skills to adjust to rapid changes in the industry. Kish Bank and its affiliate companies focused in 2014 on improving collaboration between sales and sales support. This resulted in several strategic realignments in the Corporation that have rapidly produced stronger processes and stronger alliance between the front line and centralized service support, allowing customer service to reach higher levels both internally and externally. An important part of the Corporation's carefully considered realignment had been to establish a Mortgage unit under centralized leadership. The objective, going forward, is to sharply increase Kish's market share of mortgages in the Centre County region.

The Corporation also further elevated its Human Resource management activities, leading to positive improvements in recruiting, training, and internal communication efforts. In addition, advancements in the Corporation's employee performance evaluation process were implemented. These and other noteworthy improvements in Human Resources help to expand Kish's reputation as an employer of choice in the region, reflected in the increasing talent pool at Kish, from the entry to the executive level.

KISH IN THE COMMUNITY

The engagement of the Kish family in the community is a core value and strategic priority for the Corporation. Individuals who come together in a powerful way make positive differences. Although the focus of the Corporation's engagement varies according to emerging needs in the community, Kish targets four general areas: children, health, housing, and economic development.

The establishment of Kish's Community Action Teams several years ago has helped to make more visible the commendable work by members of the Kish team. Kish employees are supported by the availability of three days of paid time off each year as an incentive for them to volunteer their time to assist with community needs. In 2014, employee activities ranged from raising money to contribute to activities designed to improve health, to plunging into frigid water to raise funds to improve water safety in an area where there was a tragic accident, to building an extensive garden for a local school, to teaching thousands of young students at local schools about financial literacy under the American Bankers Association's Teach Children to Save program. In addition, Kish executives are



Top: Deb Shawley and Karen Bower
Owners,
IFC Services, Inc.
Mt. Union

Bottom: Jim Porter
Owner, J Porter
Enterprises, LLC
McAlevy's Fort



encouraged to give back to the community by volunteering for at least one non-profit board. Kish Bank has always supported its communities by directing funds where they are needed. In addition, the Corporation tries to leverage its gifts through volunteer support and action. For several years, Kish has been a leader in Relay for Life, the signature event for the American Cancer Society. In 2014, Penn State's Lady Lion Basketball program presented the Hank Gambocurta Service Award to "The People of Kish," for their creative efforts and outstanding fundraising results for The Pink Zone, a major annual philanthropic effort of the Lady Lions that supports breast cancer awareness, education, programs, and research. Beneficiaries include all three of the local hospitals in Kish's three-county market.

KISH BANK PARTNER AND AMBASSADOR, LADY LION BASKETBALL HEAD COACH, COQUESE WASHINGTON

Kish Bank's partnership with Ms. Washington deepened in 2014, and she continues to make appearances sponsored by Kish. In October, Ms. Washington promoted breast health at J.C. Blair Memorial Hospital in Huntingdon, where she and Kish were very well received. In addition, Kish Insurance and Kish Travel were presenting co-sponsors for the 2014–2015 Lady Lion Basketball season. These sponsorships produced highly visible recognition for both Kish affiliates at Penn State's Bryce Jordan Center during all Lady Lion Basketball games played there. Kish Bank is sponsoring Ms. Washington's remarks on "Building Championship Teams" at an upcoming Pennsylvania Bankers Association meeting. Kish Bank's relationship with Ms. Washington, a leader in her field and at Penn State, continues to expand appreciation of the value that Kish brings to the region.

KISH SHAREHOLDERS

Loyal shareholders are a highly valued part of Kish's corporate culture and are in keeping with the long-term commitment the Corporation has to the central Pennsylvania region. Kish Bancorp is fortunate to have shareholders that truly understand the benefit and the opportunities inherent to a community bank. A number of Kish shareholders have seen Kish create opportunities and solve problems consistently, over a long period of time, and in a select few cases, over multiple generations. Such shareholder loyalty and support allows Kish not only to deliver the positive financial results noted herein, but also to provide the proven benefits of a community bank to the people and businesses in the region.

As Kish Bank and its affiliates continue to deliver their services focused ever more clearly on what matters to its clients and communities, the benefits will accrue to the shareholders, both those who know the Corporation well, and those who want to know it better.

*Coquese Washington
Head Coach, Penn State® Lady Lion
Basketball Team and Kish Client*

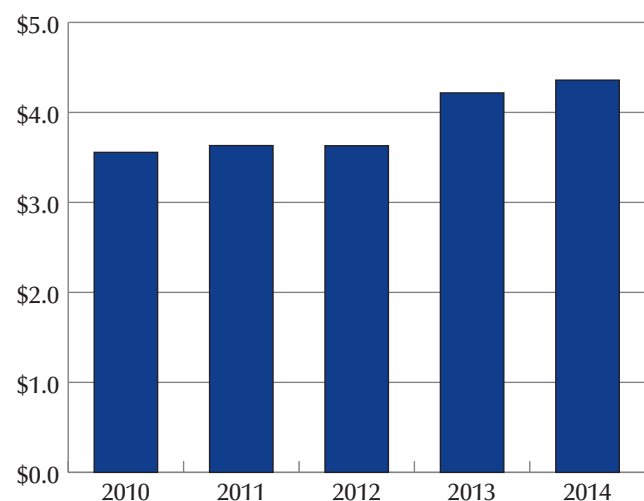
FINANCIAL HIGHLIGHTS

FIVE-YEAR SUMMARY

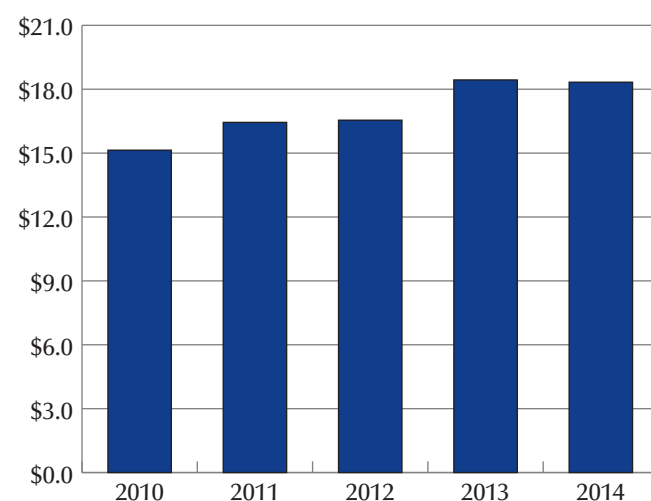
FOR THE YEAR	2014	2013	2012	2011	2010
Net Income	\$4,358,608	\$4,216,873	\$3,629,794	\$3,631,298	\$3,556,124
Net Income Before Taxes	5,130,129	4,980,589	4,168,872	4,070,114	4,026,669
Total Dividends Declared	2,005,848	1,971,992	1,960,051	1,760,493	1,739,714
AT YEAR END (in \$000s)					
Total Assets	\$659,600	\$630,132	\$557,575	\$560,069	\$556,623
Total Loans (Net)	414,061	381,261	351,040	362,163	367,306
Total Deposits	508,616	494,374	460,450	454,660	446,002
Stockholders' Equity	48,853	40,681	46,252	43,517	35,729
Loan Loss Reserve	6,009	5,928	6,867	7,043	6,245
Net Loan Losses (Recoveries)	219	34	445	3	1,001
RATIO ANALYSIS					
Return on Average Assets	0.67%	0.69%	0.65%	0.65%	0.65%
Return on Average Equity	9.54%	9.70%	8.61%	9.82%	10.31%
Dividend Declared/Net Income	46.02%	46.76%	54.00%	48.48%	48.92%
Loans/Deposits	81.41%	77.12%	76.24%	79.66%	82.36%
Primary Capital/Total Assets	8.32%	7.40%	9.53%	9.03%	7.54%
Total Capital/Risk Weighted Assets	13.07%	13.17%	14.05%	13.85%	11.67%
Loan Loss Reserve/Loans	1.43%	1.53%	1.92%	1.91%	1.67%
Net Loan Losses to Total Loans (Net)	0.05%	0.01%	0.12%	0.00%	0.27%
PER SHARE DATA*					
Basic Earnings	\$3.63	\$3.54	\$3.05	\$3.37	\$3.36
Fully Diluted Earnings	3.60	3.51	3.05	3.36	3.34
Dividends Paid	1.64	1.62	1.62	1.62	1.62
Equity (Book Value)	39.96	33.40	38.10	36.48	33.27
Equity Plus Loan Loss Reserve	44.87	38.27	43.76	42.38	39.09
Average Shares Outstanding (#)	1,199,207	1,192,755	1,189,222	1,077,470	1,058,686

*Per share data for the years 2010 through 2012 have been adjusted to post stock split levels for comparability.

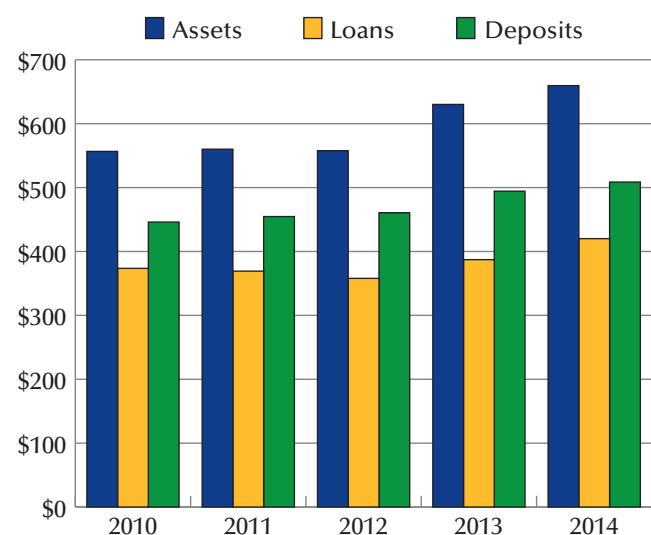
Net Income (in millions)



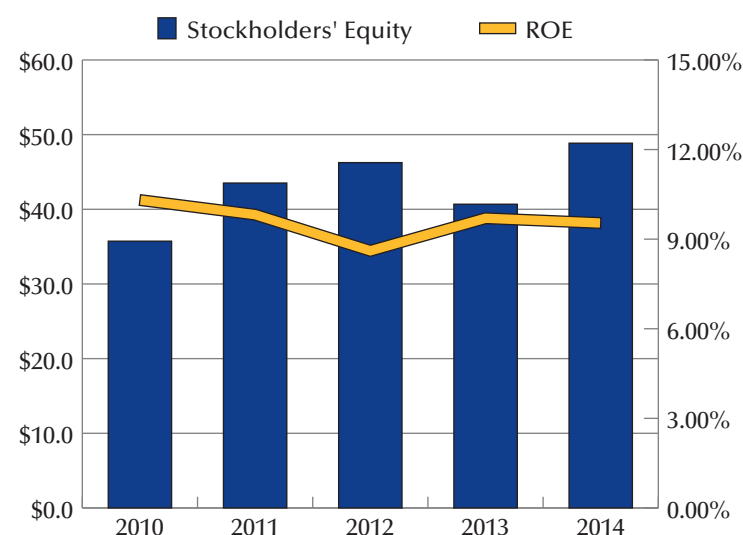
Net Interest Income After Provision (in millions)



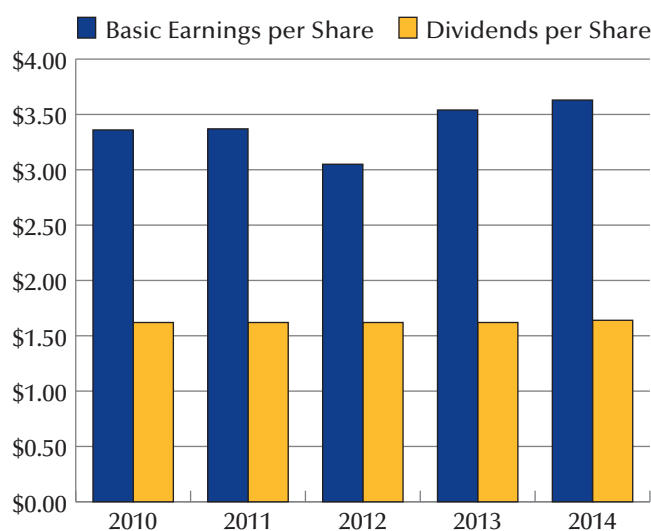
Balance Sheet (in millions)



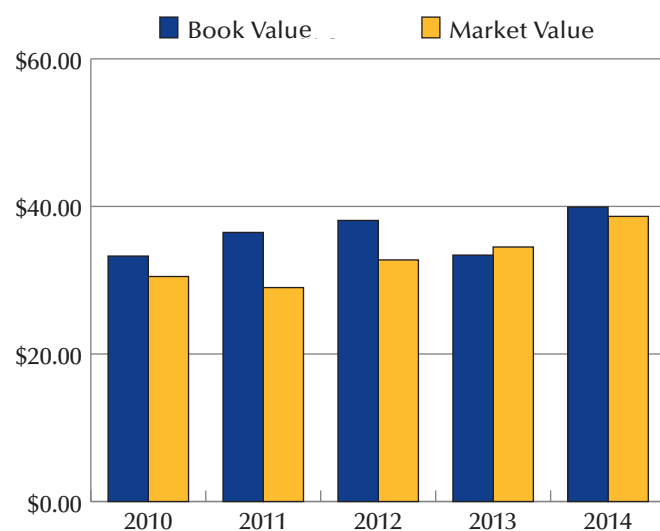
Stockholders' Equity (in millions) and ROE



Earnings and Dividends per Share



Stock Valuation (per share)



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, 2014 and 2013; 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, 2014 and 2013, 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.

A. R. Amodeo, P. C.

Wexford, Pennsylvania
March 11, 2015

KISH BANCORP, INC. CONSOLIDATED AUDITED FINANCIAL STATEMENTS DECEMBER 31, 2014

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CONSOLIDATED BALANCE SHEET

	December 31,	
	2014	2013
ASSETS		
Cash and due from banks	\$ 7,008,968	\$ 7,057,478
Interest-bearing deposits with other institutions	8,680,120	7,382,070
Cash and cash equivalents	15,689,088	14,439,548
Certificates of deposit in other financial institutions	2,753,312	980,000
Investment securities available for sale	184,323,726	188,080,483
Loans held for sale	75,050	73,150
Loans	420,069,812	387,188,353
Less allowance for loan losses	6,008,601	5,927,823
Net loans	414,061,211	381,260,530
Premises and equipment	13,392,122	14,132,706
Goodwill	1,668,699	1,668,699
Regulatory stock	6,634,200	6,867,400
Bank-owned life insurance	14,120,894	12,936,583
Accrued interest and other assets	6,881,312	9,693,018
TOTAL ASSETS	\$ 659,599,614	\$ 630,132,117
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 65,435,614	\$ 57,821,658
Interest-bearing demand	10,465,169	8,361,927
Savings	53,877,709	51,305,439
Money market	195,721,101	188,625,283
Time	183,115,908	188,259,308
Total deposits	508,615,501	494,373,615
Short-term borrowings	11,206,134	4,414,579
Other borrowings	86,195,352	86,073,842
Accrued interest and other liabilities	4,729,471	4,589,446
TOTAL LIABILITIES	610,746,458	589,451,482
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 shares issued	674,375	674,375
Additional paid-in capital	2,932,003	3,126,097
Retained earnings	49,584,308	47,231,553
Accumulated other comprehensive income (loss)	550,729	(5,042,042)
Treasury stock, at cost (124,778 and 130,736 shares in 2014 and 2013, respectively)	(4,888,259)	(5,309,348)
TOTAL STOCKHOLDERS' EQUITY	48,853,156	40,680,635
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 659,599,614	\$ 630,132,117

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2014	2013
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	\$ 17,323,124	\$ 16,822,468
Exempt from federal income tax	1,152,588	985,438
Interest and dividends on investment securities:		
Taxable	3,273,010	2,972,983
Exempt from federal income tax	1,474,594	1,334,865
Interest-bearing deposits with other institutions	58,284	61,967
Other dividend income	310,561	165,741
Total interest and dividend income	23,592,161	22,343,462
INTEREST EXPENSE		
Deposits	3,220,026	2,998,445
Short-term borrowings	111,283	114,516
Other borrowings	1,630,742	1,693,949
Total interest expense	4,962,051	4,806,910
NET INTEREST INCOME	18,630,110	17,536,552
Provision for loan losses	300,000	(900,000)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,330,110	18,436,552
NONINTEREST INCOME		
Service fees on deposit accounts	1,709,309	1,597,716
Investment securities gains, net	519,346	461,842
Investment securities other than temporary impairment loss	-	(117,500)
Gain on sale of loans	649,675	1,059,328
Earnings on bank-owned life insurance	424,465	416,184
Insurance commissions	1,067,665	931,873
Travel agency commissions	286,797	212,552
Other	1,834,912	1,896,595
Total noninterest income	6,492,169	6,458,590
NONINTEREST EXPENSE		
Salaries and employee benefits	11,568,198	11,353,347
Occupancy and equipment	2,630,711	2,568,023
Data processing	1,702,035	1,748,436
Professional fees	403,077	330,564
Advertising	256,269	311,999
Federal deposit insurance	373,062	434,577
Pennsylvania shares tax	384,973	494,076
Other	2,373,830	2,673,531
Total noninterest expense	19,692,155	19,914,553
Income before income taxes	5,130,124	4,980,589
Income taxes	771,521	763,716
NET INCOME	\$ 4,358,603	\$ 4,216,873
EARNINGS PER SHARE		
Basic	\$ 3.63	\$ 3.54
Diluted	3.60	3.51

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2014	2013
Net income	\$ 4,358,603	\$ 4,216,873
Other comprehensive income (loss):		
Securities available for sale:		
Change in unrealized holding gains (losses) on available-for-sale securities	8,993,241	(11,700,139)
Tax effect	(3,057,702)	3,978,048
Reclassification adjustment for net gains realized in net income	(519,346)	(461,842)
Tax effect	176,578	157,026
Impairment losses included in net income	-	117,500
Tax effect	-	(39,950)
Total other comprehensive income (loss)	5,592,771	(7,949,357)
Total comprehensive income (loss)	\$ 9,951,374	\$ (3,732,484)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
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				(7,949,357)		(7,949,357)
Stock option compensation expense		34,527				34,527
Purchase of shares by restricted stock plan (9,877 shares)		(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 (2,440 shares)		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
Net income			4,358,603			4,358,603
Other comprehensive income				5,592,771		5,592,771
Stock option compensation expense		24,058				24,058
Purchase of shares by restricted stock plan (9,250 shares)		(442,543)			442,543	-
Exercise of Stock Options		(36,421)			(143,357)	(36,421)
Forfeiture of shares by restricted stock plan (2,424 shares)		143,357				-
Amortization of unearned restricted stock plan shares		202,835				202,835
Cash dividends (\$1.64 per share)			(2,005,848)			(2,005,848)
Purchase of treasury stock (6,803 shares)					(255,898)	(255,898)
Sale of treasury stock (7,970 shares)		(85,380)			377,801	292,421
Balance, December 31, 2014	\$ 674,375	\$ 2,932,003	\$ 49,584,308	\$ 550,729	\$ (4,888,259)	\$ 48,853,156

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 4,358,603	\$ 4,216,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300,000	(900,000)
Investment securities gains, net	(519,346)	(461,842)
Investment securities other than temporary impairment loss	-	117,500
Proceeds from sale of loans held for sale	17,094,834	31,374,585
Origination of loans held for sale	(16,447,059)	(29,804,027)
Gain on sales of loans	(649,675)	(1,059,328)
Depreciation, amortization, and accretion	1,283,772	1,324,709
Deferred income taxes	(73,365)	160,625
Increase in accrued interest receivable	(19,473)	(271,137)
Increase (decrease) in accrued interest payable	(29,450)	24,633
Earnings on bank-owned life insurance	(424,465)	(416,184)
Decrease in prepaid federal deposit insurance	-	19,663
Loss on sale of other assets	(46,151)	-
Other, net	416,512	2,173,573
Net cash provided by operating activities	<u>5,244,737</u>	<u>6,499,643</u>
INVESTING ACTIVITIES		
Maturities of certificates of deposit	490,000	1,394,375
Purchase of certificates of deposit	(2,263,312)	-
Purchase of bank-owned life insurance	(775,943)	-
Investment securities available for sale:		
Proceeds from sale of investments	24,782,208	16,873,095
Proceeds from repayments and maturities	13,367,014	17,242,435
Purchases	(25,622,254)	(95,876,698)
Increase in loans, net	(33,138,681)	(29,809,849)
Purchase of regulatory stock	(982,400)	(3,095,200)
Redemption of regulatory stock	1,215,600	1,022,700
Purchase of premises and equipment	(274,006)	(117,586)
Proceeds from sale of other real estate owned	57,372	490,910
Net cash used for investing activities	<u>(23,144,402)</u>	<u>(91,875,818)</u>
FINANCING ACTIVITIES		
Increase in deposits, net	14,241,886	33,923,793
Increase in short-term borrowings, net	6,791,555	257,289
Proceeds from other borrowings	17,394,587	54,946,653
Repayments of other borrowings	(17,273,077)	(10,993,905)
Purchases of treasury stock	(255,898)	(201,013)
Proceeds from sale of treasury stock	292,421	62,276
Exercise of Stock Options	(36,421)	-
Cash dividends	(2,005,848)	(1,971,992)
Net cash provided by financing activities	<u>19,149,205</u>	<u>76,023,101</u>
Increase (decrease) in cash and cash equivalents	1,249,540	(9,353,074)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,439,548</u>	<u>23,792,622</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 15,689,088</u>	<u>\$ 14,439,548</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	\$ 4,991,500	\$ 4,782,277
Income taxes	685,000	395,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	\$ 38,000	\$ 489,793
Payment of stock dividend	-	337,188

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, 2014 and 2013. Interest and dividends on investment securities are recognized as income when earned.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

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

Common stock of the Federal Home Loan Bank (“FHLB”) of Pittsburgh and Federal Reserve Bank represents ownership in institutions that are wholly owned by other financial institutions. These equity securities are accounted for at cost and are shown separately on the Consolidated Balance Sheet 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. 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 \$256,269 and \$311,999 for 2014 and 2013, respectively.

Income Taxes

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

Earnings Per Share

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

Stock Options

As of December 31, 2014 and 2013, the Company recorded compensation expense of \$24,058 and \$34,527 related to share-based compensation awards. At December 31, 2014, there was approximately \$22,140 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:

<u>Grant Year</u>	<u>Expected Dividend Yield</u>	<u>Risk-Free Interest Rate</u>	<u>Expected Volatility</u>	<u>Expected Life (in Years)</u>
2014	4.44 %	2.74 %	10.52 %	10.00
2013	4.86 %	1.95 %	10.66 %	10.00

The weighted-average fair value of each stock option granted for 2014 and 2013 was \$1.63 and \$0.86, respectively. Stock options exercised during the years ended December 31, 2014 and 2013 were 5,481 and 6,380.

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, 2014 and 2013, the Company recorded gross servicing rights of \$732,590 and \$742,128 with a reserve for impairment of \$257,685 and \$259,865, 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.

	2014	2013
Weighted-average common shares outstanding	1,348,750	1,348,748
Average treasury stock shares	(126,184)	(132,493)
Average unearned nonvested restricted share plan shares	(23,359)	(23,500)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,199,207	1,192,755
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	228	318
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	10,052	7,696
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	<u>1,209,487</u>	<u>1,200,769</u>

Options to purchase 135,641 shares of common stock at a price of \$25.50 to \$48.00, as of December 31, 2014, and 19,556 shares of restricted stock ranging in price from \$28.00 to \$39.50 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

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.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$ 11,874,760	\$ -	\$ (123,180)	\$ 11,751,580
U.S. government agency securities	64,166,317	110,599	(1,072,973)	63,203,943
Obligations of states and political subdivisions	62,818,588	1,804,696	(189,183)	64,434,101
Corporate securities	14,142,440	300,279	(174,093)	14,268,626
Mortgage-backed securities in government-sponsored entities	28,691,421	320,568	(246,266)	28,765,723
Total debt securities	181,693,526	2,536,142	(1,805,695)	182,423,973
Equity securities in financial institutions	1,795,759	122,875	(18,881)	1,899,753
Total	<u>\$ 183,489,285</u>	<u>\$ 2,659,017</u>	<u>\$ (1,824,576)</u>	<u>\$ 184,323,726</u>

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	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	<u>\$ 195,719,938</u>	<u>\$ 1,751,925</u>	<u>\$ (9,391,380)</u>	<u>\$ 188,080,483</u>

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, 2014 and 2013.

	2014					
	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	\$ -	\$ -	\$ 11,751,580	\$ (123,180)	\$ 11,751,580	\$ (123,180)
U.S. government agency securities	3,980,680	(19,078)	46,936,583	(1,053,895)	50,917,263	(1,072,973)
Obligations of states and political subdivisions	2,413,441	(7,058)	10,715,337	(182,125)	13,128,778	(189,183)
Corporate securities	321,794	(6,483)	4,786,877	(167,610)	5,108,671	(174,093)
Mortgage-backed securities in government-sponsored entities	2,764,210	(30,008)	13,041,453	(216,258)	15,805,663	(246,266)
Equity securities in financial institutions	730,617	(18,881)	-	-	730,617	(18,881)
Total	<u>\$ 10,210,742</u>	<u>\$ (81,508)</u>	<u>\$ 87,231,830</u>	<u>\$ (1,743,068)</u>	<u>\$ 97,442,572</u>	<u>\$ (1,824,576)</u>

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	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)

U.S. treasury securities. The unrealized loss on 6 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, 2014.

U.S. government agency securities. The unrealized loss on 41 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, 2014.

Obligations of states and political subdivisions. The Company's unrealized losses on 23 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, 2014.

Corporate securities. The Company had unrealized losses on investments in 7 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, 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, 2014.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

Mortgage-backed securities in government-sponsored entities. The unrealized losses on 11 of the Company's investments in mortgage-backed securities were caused by interest rate increases. The Company purchased 11 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, 2014.

Equity Securities. The Company had unrealized losses on investments in 5 different equity securities. 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 these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the book value, it does not consider these investments to be other-than-temporarily impaired at December 31, 2014.

The amortized cost and fair value of debt securities at December 31, 2014, 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	\$ 1,006,675	\$ 1,016,706
Due after one year through five years	19,133,538	19,386,022
Due after five years through ten years	100,368,651	100,485,411
Due after ten years	61,184,662	61,535,834
Total	\$ 181,693,526	\$ 182,423,973

Investment securities with a carrying value of \$84,298,315 and \$71,388,656 at December 31, 2014 and 2013, 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:

	2014	2013
Proceeds from sales	\$ 24,782,208	\$ 16,873,095
Gross gains	615,334	512,423
Gross losses	95,988	50,581
Other-than-temporary impairment loss	-	117,500

4. LOANS

Major classifications of loans are summarized as follows:

	2014	2013
Commercial real estate	\$ 139,885,732	\$ 125,959,918
Commercial and industrial	57,253,972	51,447,386
Agricultural	19,504,821	19,588,155
State and political subdivisions	36,357,220	30,282,161
Consumer	8,097,292	7,219,608
Residential real estate	158,970,775	152,691,125
	<u>420,069,812</u>	<u>387,188,353</u>
Less allowance for loan losses	6,008,601	5,927,823
Net loans	<u>\$ 414,061,211</u>	<u>\$ 381,260,530</u>

Mortgage loans serviced by the Company for others amounted to \$73,230,046 and \$74,621,700 at December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014, is as follows:

Balance		Amounts	Balance		Amounts	Balance
2012	Additions	Collected	2013	Additions	Collected	2014
\$ 8,989,462	\$ 7,931,823	\$ 12,451,249	\$ 4,470,036	\$ 8,319,121	\$ 4,905,042	\$ 7,884,115

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 non-classified 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 2014, management elevated the qualitative factors reserve percentage for the consumer and commercial real estate pool of loans because of the changes in the volume and severity of past dues, non-accrual and classified loans as well as changes in competitive, legal and regulatory environment. In 2013, qualitative factors were elevated for residential real estate loans because of increased regulations for residential lending. These factors were kept at the same level for 2014. In 2013, the change in credit staff experience and ability factor percentage was increased because of the resignation of the Chief Credit Officer. In 2014, a new chief credit officer was hired along with additional credit staff with greater expertise in commercial and industrial lending. While qualitative factors related to changes in lending staff experience and ability were kept at the same level for all the pools, it was decreased for commercial and industrial lending. With improvement in the economic and business conditions, the reserve factors related to agricultural loans were decreased slightly. All other pools of loans were left unchanged due to immaterial changes in the environmental trends. 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 2013.

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:

		2014							
		Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:									
Beginning balance	\$	2,545,590	\$ 1,082,500	\$ 219,126	\$ 164,348	\$ 53,732	\$ 1,086,486	\$ 776,041	\$ 5,927,823
Charge-offs		(38,393)	(196,294)	-	-	(952)	-	-	(235,639)
Recoveries		1,501	9,510	1,600	-	3,806	-	-	16,417
Provision		469,760	(86,059)	(10,346)	26,141	9,456	67,539	(176,491)	300,000
Ending balance	\$	<u>2,978,458</u>	<u>\$ 809,657</u>	<u>\$ 210,380</u>	<u>\$ 190,489</u>	<u>\$ 66,042</u>	<u>\$ 1,154,025</u>	<u>\$ 599,550</u>	<u>\$ 6,008,601</u>
Ending balance individually evaluated for impairment	\$	821,321	\$ 81,828	\$ -	\$ -	\$ 3,306	\$ 35,000	\$ -	\$ 941,455
Ending balance collectively evaluated for impairment	\$	2,157,137	\$ 727,829	\$ 210,380	\$ 190,489	\$ 62,736	\$ 1,119,025	\$ 599,550	\$ 5,067,146
Loans:									
Individually evaluated for impairment	\$	7,205,504	\$ 837,052	\$ 362,362	\$ 98,843	\$ 8,092	\$ 926,597	\$ -	\$ 9,438,450
Collectively evaluated for impairment		132,680,228	56,416,920	19,142,459	36,258,377	8,089,200	158,044,178		410,631,362
Ending balance	\$	<u>139,885,732</u>	<u>\$ 57,253,972</u>	<u>\$ 19,504,821</u>	<u>\$ 36,357,220</u>	<u>\$ 8,097,292</u>	<u>\$ 158,970,775</u>		<u>\$ 420,069,812</u>
		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	\$	<u>2,545,590</u>	<u>\$ 1,082,500</u>	<u>\$ 219,126</u>	<u>\$ 164,348</u>	<u>\$ 53,732</u>	<u>\$ 1,086,486</u>	<u>\$ 776,041</u>	<u>\$ 5,927,823</u>
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	\$	<u>125,959,918</u>	<u>\$ 51,447,386</u>	<u>\$ 19,588,155</u>	<u>\$ 30,282,161</u>	<u>\$ 7,219,608</u>	<u>\$ 152,691,125</u>		<u>\$ 387,188,353</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Reserve requirement for commercial real estate loans increased by \$467,868 from 2013 to 2014, while those for commercial and industrial loans decreased by \$272,843 during the same period. This was a direct result of increases in outstanding balances in commercial real estate loans during 2014 and decrease in impaired, criticized and classified assets for commercial and industrial loans which at \$2.2 million at December 31, 2014, indicates a 41 percent or \$1.5 million decrease from December 31, 2013.

Credit Quality Information

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2014 and 2013, 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.

		2014				
		Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	\$	130,084,660	\$ 54,721,479	\$ 17,944,555	\$ 36,357,220	\$ 239,107,914
Special Mention		2,302,154	2,189,688	211,321	-	4,703,163
Substandard		7,498,918	312,956	1,348,945	-	9,160,819
Doubtful		-	29,849	-	-	29,849
Loss		-	-	-	-	-
Total	\$	<u>139,885,732</u>	<u>\$ 57,253,972</u>	<u>\$ 19,504,821</u>	<u>\$ 36,357,220</u>	<u>\$ 253,001,745</u>
		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	\$	<u>125,959,918</u>	<u>\$ 51,447,386</u>	<u>\$ 19,588,155</u>	<u>\$ 30,282,161</u>	<u>\$ 227,277,620</u>

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:

	2014		
	Consumer	Residential Real Estate	Total
Performing	\$ 8,089,200	\$ 158,492,274	\$ 166,581,474
Nonperforming	8,092	478,501	486,593
Total	<u>\$ 8,097,292</u>	<u>\$ 158,970,775</u>	<u>\$ 167,068,067</u>

	2013		
	Consumer	Residential Real Estate	Total
Performing	\$ 7,169,056	\$ 152,078,370	\$ 159,247,426
Nonperforming	50,552	612,755	663,307
Total	<u>\$ 7,219,608</u>	<u>\$ 152,691,125</u>	<u>\$ 159,910,733</u>

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:

	2014						
	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	\$ 1,177,425	\$ 150,000	\$ 6,028,078	\$ 7,355,503	\$ 132,530,229	\$ 139,885,732	\$ -
Commercial and industrial	261,814	-	191,753	453,567	56,800,405	57,253,972	-
Agricultural	330,426	-	-	330,426	19,174,395	19,504,821	-
State and political subdivisions	-	-	-	-	36,357,220	36,357,220	-
Consumer	19,638	-	8,092	27,730	8,069,562	8,097,292	-
Residential real estate	234,314	-	478,501	712,815	158,257,960	158,970,775	-
Total	<u>\$ 2,023,617</u>	<u>\$ 150,000</u>	<u>\$ 6,706,424</u>	<u>\$ 8,880,041</u>	<u>\$ 411,189,771</u>	<u>\$ 420,069,812</u>	<u>\$ -</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

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

	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	50,689,660	51,447,386	-
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	152,078,370	152,691,125	-
Total	<u>\$ 2,048,852</u>	<u>\$ 64,123</u>	<u>\$ 3,164,412</u>	<u>\$ 5,277,387</u>	<u>\$ 381,910,966</u>	<u>\$ 387,188,353</u>	<u>\$ -</u>

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.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

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:

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	\$ 4,164,729	\$ 4,164,729	\$ -	\$ 3,790,302	\$ 119,559
Commercial and industrial	755,224	755,224	-	650,586	33,696
Agricultural	362,362	362,362	-	243,449	10,973
State and political subdivisions	98,844	98,844	-	103,054	4,783
Consumer	-	-	-	839	-
Residential real estate	891,597	891,597	-	1,041,076	16,383
	<u>6,272,756</u>	<u>6,272,756</u>	<u>-</u>	<u>5,829,306</u>	<u>185,394</u>
With an allowance recorded:					
Commercial real estate	3,040,774	3,040,774	821,321	1,053,788	-
Commercial and industrial	81,828	81,828	81,828	299,952	-
Agricultural	-	-	-	2,083	-
State and political subdivisions	-	-	-	-	-
Consumer	8,092	8,092	3,306	4,070	-
Residential real estate	35,000	35,000	35,000	2,917	-
	<u>3,165,694</u>	<u>3,165,694</u>	<u>941,455</u>	<u>1,362,810</u>	<u>-</u>
Total:					
Commercial real estate	7,205,504	7,205,503	821,321	4,844,090	119,559
Commercial and industrial	837,052	837,052	81,828	950,538	33,696
Agricultural	362,362	362,362	-	245,532	10,973
State and political subdivisions	98,843	98,844	-	103,054	4,783
Consumer	8,092	8,092	3,306	4,909	-
Residential real estate	926,597	926,597	35,000	1,043,993	16,383
Total	<u>\$ 9,438,450</u>	<u>\$ 9,438,450</u>	<u>\$ 941,455</u>	<u>\$ 7,192,116</u>	<u>\$ 185,394</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	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
	<u>6,833,101</u>	<u>6,833,101</u>	<u>-</u>	<u>5,205,106</u>	<u>27,280</u>
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	-
	<u>1,274,484</u>	<u>1,274,484</u>	<u>892,889</u>	<u>1,585,712</u>	<u>102,063</u>
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	<u>\$ 8,107,585</u>	<u>\$ 8,107,585</u>	<u>\$ 892,889</u>	<u>\$ 6,790,818</u>	<u>\$ 129,343</u>

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:

	2014	2013
Commercial real estate	\$ 6,028,078	\$ 4,307,478
Commercial and industrial	191,753	763,760
Agricultural	-	290,389
State and political subdivisions	-	-
Consumer	8,092	-
Residential real estate	478,501	576,149
Total	<u>\$ 6,706,424</u>	<u>\$ 5,937,776</u>

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, 2014, a specific reserve allocation of \$0 has been established against the troubled debt restructurings. Also, as of December 31, 2014, no charge-offs for the troubled debt restructurings were required.

The restructuring of the loans was either an extension of the maturity date or temporary reduction or moratorium on the payment terms or amounts. No modifications involved any changes in principal balance for 2014 or 2013. There were no loans modified in a troubled debt restructuring from January 1, 2012 through December 31, 2013, that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2014 and 2013.

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

	2014		
	Number of Contracts	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	-	\$ -	\$ -
Commercial and industrial	3	316,054	316,054
Agricultural	3	262,690	262,690
State and political subdivisions	-	-	-
Consumer	-	-	-
Residential real estate	4	309,143	309,143
Total	10	\$ 887,887	\$ 887,887

	2013		
	Number of Contracts	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	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

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2014	2013
Land and land improvements	\$ 790,550	\$ 793,458
Building and leasehold improvements	16,771,799	16,699,029
Furniture, fixtures, and equipment	5,706,234	5,559,109
	23,268,583	23,051,596
Less accumulated depreciation	9,876,461	8,918,890
Total	\$ 13,392,122	\$ 14,132,706

Depreciation and amortization charged to operations was \$1,060,741 in 2014 and \$1,063,679 in 2013.

7. GOODWILL

As of each of the years ended December 31, 2014 and 2013, goodwill had a carrying amount of \$1,668,699. The gross carrying amount of goodwill was tested for impairment in the 4th quarter, after the annual forecasting process. There was no impairment for the years ended December 31, 2014 and 2013.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2015	\$ 64,930,796
2016	26,290,797
2017	12,864,223
2018	25,381,450
2019	19,724,085
Thereafter	33,924,557
	\$ 183,115,908

The aggregate of all time deposit accounts of \$250,000 or more amounted to \$12,397,255 and \$16,041,379 at December 31, 2014 and 2013, respectively. Total amount of Brokered Deposits for each of the years ended December 31, 2014 and 2013 were \$7,450,000 and \$7,650,000 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, 2014 and 2013, 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:

	2014	2013
Balance at year-end	\$ 11,206,134	\$ 4,414,579
Average balance outstanding	6,778,791	7,146,587
Maximum month-end balance	12,165,513	14,546,188
Weighted-average rate at year-end	1.00%	2.51%
Weighted-average rate during the year	1.67%	1.60%

10. OTHER BORROWINGS

The following table sets forth information concerning other borrowings:

Description	Maturity Range		Weighted-Average Interest Rate	Stated Interest Rate Range		At December 31,	
	From	To		From	To	2014	2013
Fixed rate	08/26/15	12/18/23	1.76 %	0.93 %	4.96 %	\$ 27,639,850	\$ 32,859,450
Fixed rate amortizing	07/08/15	04/24/23	1.76	1.08	6.53	20,599,502	15,878,392
Mid-term repos	01/28/15	07/08/16	0.63	0.36	0.99	26,500,000	26,500,000
Subordinated capital notes	11/12/20	12/26/24	5.35	3.76	6.75	5,270,000	4,650,000
Note payable	03/17/35	11/23/35	4.18	2.24	6.11	6,186,000	6,186,000
						<u>\$ 86,195,352</u>	<u>\$ 86,073,842</u>

Maturities of other borrowings at December 31, 2014, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2015	\$ 12,619,749	1.19 %
2016	19,512,000	0.77
2017	7,647,961	1.70
2018	6,676,920	1.27
2019	4,300,201	1.19
2020 and after	35,438,521	2.80
	<u>\$ 86,195,352</u>	1.81 %

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, 2014, the Bank's maximum borrowing capacity with the FHLB was approximately \$201 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, 2014, is approximately \$8.4 million.

10. OTHER BORROWINGS (Continued)

The Bank also maintains a \$10.0 million, \$5.0 million and a \$4.0 million federal funds line of credit with three other financial institutions. The Bank did not have outstanding borrowings related to these lines of credit at December 31, 2014.

The Company issued \$3,620,000 of fixed rate subordinated debt securities with stated maturities of March 24, 2024 through December 26, 2024. These securities bear a fixed annual rate of 4.75 percent. The Company may redeem them, in whole or in part, at face value on or after March 24, 2019. 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. \$100,000 of these notes were redeemed in June 2013. 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:

	2014	2013
Current	\$ 844,886	\$ 603,091
Deferred	(73,365)	160,625
Total provision	<u>\$ 771,521</u>	<u>\$ 763,716</u>

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:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	\$ 2,042,924	\$ 2,015,460
Deferred compensation	261,879	245,420
Core deposit intangible assets	24,382	24,382
Alternative minimum tax carryforward	602,640	653,531
Asset valuation allowances	257,452	230,344
Employee compensation accruals	330,636	330,512
Nonaccrual interest receivable	223,286	231,618
Capital loss carryforward	91,681	117,401
Unrealized loss on available-for-sale securities	-	2,597,415
Other	2,000	2,000
Deferred tax assets	<u>3,836,880</u>	<u>6,448,083</u>
Deferred tax liabilities:		
Premises and equipment	871,965	942,803
Goodwill	95,779	550,876
Deferred loan fees	550,876	99,472
Partnerships	271,052	272,332
Other	6,498	17,840
Unrealized gain on available-for-sale securities	283,712	-
Deferred tax liabilities	<u>2,079,882</u>	<u>1,883,323</u>
Net deferred tax assets	<u>\$ 1,756,998</u>	<u>\$ 4,564,760</u>

11. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2014 and 2013, 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:

	2014		2013	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 1,744,244	34.0 %	\$ 1,693,400	34.0 %
Tax-exempt interest	(893,242)	(17.4)	(788,903)	(15.9)
Life insurance income	(102,113)	(2.0)	(106,239)	(2.1)
Other	22,632	0.8	(34,542)	(0.7)
Actual tax expense and effective rate	\$ <u>771,521</u>	<u>15.4 %</u>	\$ <u>763,716</u>	<u>15.3 %</u>

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 2010 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 \$284,999 and \$269,876 for the years ended December 31, 2014 and 2013, respectively. The fair value of plan assets includes \$989,672 and \$822,066 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2014 and 2013, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan that allows directors and senior executives to defer fees and salaries. Outstanding balances under this arrangement for 2014 and 2013 were \$770,231 and \$721,824, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were \$46,098 and \$101,914 for December 31, 2014 and 2013, 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 to the plan. 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 \$202,835 and \$237,596 for the years ended December 31, 2014 and 2013, respectively.

The following is a summary of the status of the Company's restricted stock as of December 31, 2014, and changes therein during the year then ended:

	Number of Shares of Restricted Stock	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2014	20,492	\$ 31.78
Granted	9,250	36.69
Vested	(7,762)	32.36
Forfeited	(2,424)	32.50
Nonvested at December 31, 2014	<u>19,556</u>	\$ 33.71

Stock Option Plan

The Company has a fixed director and employee stock-based compensation plan. The plan has total options available to grant of 380,000 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, 2014	180,036	\$ 36.67
Granted	17,280	36.63
Exercised	(5,481)	30.07
Forfeited	(56,194)	37.20
Outstanding, December 31, 2014	<u>135,641</u>	\$ 35.10
Exercisable at year-end	<u>98,782</u>	\$ 35.45

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table summarizes the characteristics of stock options at December 31, 2014:

Grant Date	Exercise Price	Outstanding		Exercisable	
		Shares	Contractual Average Life	Shares	Average Exercise Price
01/05/05	\$ 46.50	13,124	0.01	13,124	\$ 46.50
02/09/05	47.50	52	0.10	52	47.50
02/10/05	47.50	200	0.11	200	47.50
02/24/05	48.00	84	0.15	84	48.00
07/08/05	47.50	666	0.51	666	47.50
12/20/05	47.50	2,802	0.96	2,802	47.50
12/22/05	47.50	6,360	0.97	6,360	47.50
01/25/07	44.00	654	2.06	654	44.00
02/23/07	45.00	1,050	2.14	1,050	45.00
01/31/08	38.18	10,800	3.08	10,800	38.18
03/26/09	25.50	12,600	4.23	12,600	25.50
10/27/09	35.00	2,000	4.82	2,000	35.00
04/01/10	34.13	13,800	5.25	13,800	34.13
04/28/11	29.75	15,200	6.32	15,200	29.75
04/02/12	30.00	18,200	7.25	12,122	30.00
04/01/13	33.25	20,769	8.25	6,504	33.25
08/01/13	34.05	2,000	8.58	666	34.05
09/12/13	35.00	300	8.70	98	35.00
04/01/14	36.50	13,980	9.25	-	36.50
09/22/14	39.50	500	9.73	-	39.50
11/03/14	38.90	500	9.84	-	38.90
		<u>135,641</u>		<u>98,782</u>	

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:

	2014	2013
Commitments to extend credit	\$ 103,938,735	\$ 103,035,768
Standby letters of credit	<u>5,447,421</u>	<u>5,146,000</u>
Total	<u>\$ 109,386,156</u>	<u>\$ 108,181,768</u>

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, 2014, are as follows:

	Minimum Lease Payment
2015	\$ 295,112
2016	257,076
2017	257,076
2018	257,076
2019	257,076
Thereafter	<u>3,425,738</u>
Total	<u>\$ 4,749,154</u>

Rent expense under leases for each of the years ended December 31, 2014 and 2013, was \$300,880 and \$300,945, 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, 2014 and 2013, was \$1,771,000 and \$1,656,000, 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, 2014, 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, 2014 and 2013, 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:

	2014		2013	
	Amount	Ratio	Amount	Ratio
Total capital <u>(to risk-weighted assets)</u>				
Actual	\$ 64,697,824	13.07 %	\$ 61,373,773	13.17 %
For capital adequacy purposes	39,598,293	8.00	37,294,894	8.00
To be well capitalized	49,497,866	10.00	46,618,618	10.00
Tier I capital <u>(to risk-weighted assets)</u>				
Actual	\$ 53,147,425	10.74 %	\$ 50,568,087	10.85 %
For capital adequacy purposes	19,799,146	4.00	18,647,447	4.00
To be well capitalized	29,698,720	6.00	27,971,171	6.00
Tier I capital <u>(to average assets)</u>				
Actual	\$ 53,147,425	8.02 %	\$ 50,568,087	7.96 %
For capital adequacy purposes	26,516,759	4.00	25,415,096	4.00
To be well capitalized	33,145,949	5.00	31,768,871	5.00

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

	2014		2013	
	Amount	Ratio	Amount	Ratio
Total capital <u>(to risk-weighted assets)</u>				
Actual	\$ 64,845,014	13.15 %	\$ 62,402,925	13.45 %
For capital adequacy purposes	39,441,798	8.00	37,115,336	8.00
To be well capitalized	49,302,247	10.00	46,394,171	10.00
Tier I capital <u>(to risk-weighted assets)</u>				
Actual	\$ 58,611,413	11.89 %	\$ 56,302,396	12.14 %
For capital adequacy purposes	19,720,899	4.00	18,557,668	4.00
To be well capitalized	29,581,348	6.00	27,836,502	6.00
Tier I capital <u>(to average assets)</u>				
Actual	\$ 58,611,413	8.86 %	\$ 56,302,396	8.89 %
For capital adequacy purposes	26,449,196	4.00	25,339,017	4.00
To be well capitalized	33,061,495	5.00	31,673,771	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, 2014 and 2013, 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, 2014			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	\$ -	\$ 11,751,580	\$ -	\$ 11,751,580
U.S. government agency securities	-	63,203,943	-	63,203,943
Obligations of states and political subdivisions	-	64,434,101	-	64,434,101
Corporate securities	-	14,268,626	-	14,268,626
Mortgage-backed securities in government-sponsored entities	-	28,765,723	-	28,765,723
Total debt securities	-	182,423,973	-	182,423,973
Equity securities in financial institutions	1,899,753	-	-	1,899,753
Total	\$ 1,899,753	\$ 182,423,973	\$ -	\$ 184,323,726
	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

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.

	Corporate Securities
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, 2014 and 2013, 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, 2014			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	\$ -	\$ -	\$ 8,496,995	\$ 8,496,995
Other real estate owned	-	-	200,531	200,531
Mortgage servicing rights	-	-	474,905	474,905
	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

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, 2014 and 2013.

December 31, 2014		Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	\$	8,496,995	Property appraisals	Management discount for property type and recent market volatility	0% - 70% discount Weighted Average (17.88%)
Other real estate owned	\$	200,531	Property appraisals	Management discount for property type and recent market volatility	0% - 15% discount Weighted Average (8.44%)
Mortgage servicing rights	\$	474,905	Discounted cash flows	Discount rate	2.65 - 3.48% discount Weighted Average (3.07%)
				Prepayment speeds	1.32 - 3.70 prepayment factor Weighted Average (1.88%)
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 Weighted Average (15%)
Other real estate owned	\$	237,150	Property appraisals	Management discount for property type and recent market volatility	0% - 15% discount Weighted Average (7.00%)
Mortgage servicing rights	\$	482,263	Discounted cash flows	Discount rate	2.96 - 3.98% discount Weighted Average (3.47%)
				Prepayment speeds	1.23 - 3.71 prepayment factor Weighted Average (2.02%)

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

		2014				
		Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:						
Cash and cash equivalents	\$	15,689,088	\$ 15,689,088	\$ 15,689,088	\$ -	\$ -
Certificates of deposit		2,753,312	2,753,312	2,753,312	-	-
Investment securities available for sale		184,323,726	184,323,726	1,899,753	182,423,973	-
Loans held for sale		75,050	75,050	75,050	-	-
Net loans		414,061,211	413,000,346	-	-	413,000,346
Regulatory stock		6,634,200	6,634,200	6,634,200	-	-
Bank-owned life insurance		14,120,894	14,120,894	14,120,894	-	-
Accrued interest receivable		2,096,708	2,096,708	2,096,708	-	-
Mortgage servicing rights		474,905	474,905	-	-	474,905
Financial liabilities:						
Deposits	\$	508,615,501	\$ 510,517,363	\$ 325,499,593	\$ -	\$ 185,017,770
Short-term borrowings		3,706,134	3,706,134	3,706,134	-	-
Other borrowings		93,695,352	92,638,893	-	-	92,638,893
Accrued interest payable		761,770	761,770	761,770	-	-
		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	-	-

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.

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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 INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive (loss) income by component net of tax for the year ended December 31, 2014:

	Net Unrealized Gains (Losses) on <u>Investment Securities</u>
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	<u>(5,042,042)</u>
Other comprehensive income before reclassification	5,935,539
Amounts reclassified from accumulated other comprehensive (loss) income	(342,768)
Accumulated other comprehensive (loss) income, December 31, 2014	<u>\$ 550,729</u>

18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2014, and 2013:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Statement of Income Where Net Income Is Presented
Unrealized gains on investment securities December 31, 2014	\$ (519,346)	Investment securities gains, net
	176,578	Income taxes
	<u><u>(342,768)</u></u>	
Unrealized gains on investment securities December 31, 2013	\$ (461,842)	Investment securities gains, net
	157,026	Income taxes
	<u><u>(304,716)</u></u>	
Other-than-temporary impairment losses December 31, 2013	\$ 117,500	Investment securities impairment loss
	(39,950)	Income taxes
	<u><u>77,550</u></u>	

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 11, 2015, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

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