2006 ANNUAL REPORT

change...

We make it work.

KISH BANCORP

expect more

no matter where
you are in life

growing

planning

focusing

sustaining

Kish is with you

KISH BANCORP
expect more

Contents

change

Kish Bancorp's ongoing vitality as a community-based financial holding company is built upon the commitment to sustaining a customer-focused approach.

Chairman's Letter to the Shareholders

Change. It permeates the business environment in which we all live and work. This constant state of change for business has been referred to as "permanent whitewater." It drives out complacency and rewards those who anticipate its course. It challenges businesses to embrace it and adapt, or lose relevancy. It requires new measures of responsiveness, and demands that business processes and execution move at the new speed of change. It requires businesses like Kish to not only manage for the long term, but to execute like there is no tomorrow.

For the past ten years, Kish Bancorp has been engaged in implementing strategies that position the company for the future. Through the addition of a full range of insurance, investment management and travel services, Kish has diversified its revenues while expanding organizational capacity to respond to the needs of our customers. We have grown from our traditional base in Mifflin County to a broader geographic footprint that incorporates Huntingdon and Centre Counties. As we discuss Kish's performance, please keep in mind this longer-term perspective on the Corporation's growth and evolution as an independent, diversified, financial services company with a rich local heritage. It is key to where we are today and where we will go in the future.

In this Annual Report to the Shareholders, we present the 2006 financial statements and a discussion of Kish Bancorp's financial performance for the year. We discuss how change has impacted the Corporation's performance and focused us more keenly on the customer segments that are critical to our future. We also discuss how the pace of change has challenged us to expand the speed, precision and efficiency of our execution. We acknowledge that the performance of our people is the factor that most clearly differentiates us from our competitors. Finally, we echo the message we have repeated frequently over the years: sustained long-term performance for customers and shareholders cannot be achieved by managing from quarter-to-quarter or by pursuing growth strategies that do not endure.

Our overriding objective is to grow Kish Bancorp so that it remains an independent local alternative for people and businesses who want to partner with a bank that is close to them and their community. We will manage the Corporation with a singular focus to sustain this vision. To be successful, we must focus on achieving exceptional financial performance results and shareholder returns; we must seek internal and external sources of sustainable growth; we must rivet our attention on acquiring and fostering relationships; and we must concentrate on attracting and retaining talented people who can deliver the Kish Experience.

We recognize change can be either a threat or an ally to our vision. So, our approach will be *not business as usual* as we seek to anticipate and manage the impact of change. This is why our motto is: **Expect More**. As our shareholders, customers, and communities, we expect you to hold us to that promise.

Sincerely,

William P. Hayes
Chairman, President and Chief Executive Officer

We make it work.

William P. Hayes
Chief Executive Officer

For over 100 years, Kish Bancorp and Kish Bank have been making change work — for our customers, our shareholders, our employees, and our communities. We have remained an independent financial services company by defining ourselves by our customers' expectations and not our own.

leading

From a single location in Belleville, Kish Bank has grown to ten offices in three counties. With over $400 million in total assets and $28 million in revenues, Kish Bancorp employs more than 150 dedicated people who are also engaged community members. Our growth can be attributed to several key areas. We have developed an innovative and entrepreneurial culture; Kish was the first Pennsylvania bank to acquire a property and casualty insurance agency and the only holding company to operate a travel services division. We have expanded the geographic coverage of the branch network, and have expanded alternative electronic forms of delivery. We hire and train the best; Kish employees consistently graduate from banking schools with top honors. We continue to develop a strong brand that is focused on quality. We engage in economic development for our communities. We spearhead development of products to attract new and existing customers. We stay focused on performance for our customers and shareholders.

Our focus on the customer led us to create a unique financial center concept with multiple business units under one roof. We work hard to understand our customers and anticipate their needs, all while moving not at the speed of a typical bank, but at the speed of our customers.

"Our success will follow the success of our customers."

Sustained long-term performance for customers and shareholders cannot be achieved by managing from quarter-to-quarter, or by pursuing growth strategies that do not endure.

sustaining

At Kish, we plan on remaining Kish. In an environment of constant change and unrelenting pressure on traditional profit margins, bank mergers, new bank start-ups and acquisitions are commonplace. Our overriding objective is to perform so that Kish remains a stable and enduring local alternative for people and businesses who wish to partner with a bank that is close to them and the community. We believe in this vision for the company and will sustain it with a singular focus. It is a business model with targeted core objectives: the achievement of high performance financial results and shareholder returns, the creation of an organization-wide customer acquisition and business development plan, and a focus on organizing resources for strategic execution.

Our capacity to sustain our performance is based upon our people. Kish prides itself on the tenure of its professionals. We attract and retain people who are able to deliver the Kish experience and who believe in the values of the company.

"We intend to remain Kish Bank and our long-term strategy is to sustain our independence."

We constantly look for ways to differentiate Kish and the Kish brand in our markets and to key customer segments.

evolving

The pace of change has challenged us to evolve. Kish has many "firsts" to its credit, but we don't rest on our laurels. In 2006, we continued our expansion in Centre and Huntingdon Counties while increasing market share in Mifflin County.

In the year ahead we will focus on further defining the needs of key customer segments – like small businesses or first-time home owners – then developing and refining products and services to meet those needs. We will conduct customer surveys and focus group interviews and continue using mystery shoppers to assess our performance. Our cross-disciplinary, product-development team continuously focuses on new product ideas, from Website applications to services for businesses. We've strengthened the regional focus on our market areas as well, identifying regional market managers, recruiting community and business leaders to our Regional Boards, looking for opportunities within our communities to attract key staff members and aligning with organizations, community events and media sources that give us a tighter focus on our objectives.

At Kish, it is **"not business as usual."** We make it our job to listen and anticipate customers' needs. Today we offer not only a full array of banking products, but also a complete line of insurance, investment management and travel services. Our customers can meet with multiple professionals at our Financial Centers and branch offices, making it easier to access a range of financial solutions simultaneously. What could be easier than obtaining a mortgage and insurance at the same time? Or, receiving an insurance risk analysis in conjunction with an in-depth financial plan? These are the reasons Kish customers **Expect More** from their Kish experience.

"Our customers can meet with multiple professionals at our Financial Centers and branch offices, making it easier to access a range of financial solutions simultaneously."

Customers gain the highest value from our services when we partner with them, combining our expertise with an in-depth understanding of their goals.

partnering

“The performance of our people is the factor that most clearly differentiates us from our competitors.”

Deposit Services
- Checking & Savings Accounts
- Cash Management Services
- Merchant Services Program
- TeleBanking
- CD’s and IRA’s
- Payroll Direct Deposit Services
- Automated Clearing House

Loan Services
- Business & Consumer Loans
- Commercial Real Estate
- Business Start-up/ SBA loans
- Short-Term Loans
- Visa Credit Card Services
- Business Manager Program
- Cash-Flow Lease

Electronic On-line Banking
- Bill Paying
- Account Transfers
- Statements & Reports

Insurance Services
- Property & Casualty Insurance Services
- Life, Disability, Medical and Long-Term Care Insurance Services
- Bonding

Investment Services
- Raymond James Financial Services
- Kish Bank Trust & Asset Management Services
- Estate Planning & Administration
- Retirement Planning

Travel Services
- Group Tours
- Corporate Corporate & Consumer Travel

When partnering with individuals and businesses, listening is everything. Customers are busy. They look to our professionals for advice and guidance; people they have come to know and trust for their expertise. They welcome ways to simplify banking, investing and other financial services. We make it a priority to really listen and understand them.

In 2006, there were numerous ways we partnered with customers to streamline services. The Kish Courier Service was expanded to help business customers access deposit services without coming to the bank. Remote branch capture of deposited checks enabled us to extend the business day in our branches and accelerate access to deposited funds. Kish Relationship Managers continue to bring other Kish professionals – from banking, insurance, investment and trust – to meet with clients jointly to assess and recommend financial and risk management strategies.

The Kish Brand stands for high quality client solutions. It means forging partnerships in an environment of continuous change. It’s how we build relationships that last and a company that endures.

Our platform is the dedicated, caring and educated staff that ensure Kish is invested and involved in our communities. Kish donates significantly to community organizations that support the quality of life in the region. Some of the organizations we support include Penn State’s Palmer Museum of Art and the Center for Performing Arts; the Juniata College Halbritter Center for Performing Arts; United Way in Mifflin, Centre and Huntingdon Counties; Junior Achievement; volunteer fire companies; economic development organizations; 4-H and many others. Our employees volunteer their time and talents, and we encourage volunteerism by offering each employee up to 20 hours a year of paid time off to volunteer. To our customers, we’re more than just financial service professionals — we’re neighbors. It is the greatest form of partnership we know.

financial highlights

Our financial results for 2006 reflect an evolution in the composition of our earnings stream. The corporation's net income rose by 1.8% to $3,848,000 compared to $3,779,000 in 2005. Earnings per share reached $6.94 per share, an increase of 3.7% year over year, supported by the Corporation's stock repurchase program.

Net interest income, after provision for loan losses, increased by $888,000 to $11,482,000 compared to 2005, representing an 8.4% year over year improvement. This growth in net interest income, which is the Corporation's core earnings engine, led to an increase in net earnings despite a decline in gains from investment activities to $437,000 from $1,127,000 in the prior year. Growth in the yield on earning assets outpaced growth in the cost of interest-bearing liabilities for the year, resulting in an expansion of the net interest margin. Sustained improvement in the quality of the loan portfolio, marked by improving levels of non-performing loans and very low net loan losses, reduced the necessity to build the loss reserve in spite of the strong growth in loans.

Although total non-interest income declined as a result of lower gains from investing activities, retail and lending service fees grew by 7.3% compared to 2005 and income from travel services improved by 44.7%. Kish Agency experienced a 1.9% growth in revenue for the year in spite of declining commission rates by some major carriers.

Total loans outstanding grew by $20.3 million, or 7.6%, ending the year at $288 million. Despite a very competitive environment, total deposits grew by $18.8 million, an increase of 6.2%. Normally, strong deposit and loan growth would lead to a corresponding growth in total assets; however, sustained high short-term interest rates lead to decisions to reduce investment securities by $16.4 million and borrowings by $19.0 million during 2006. The result was growth in total assets to $413.4 million at year end compared to $412.0 million in 2005.

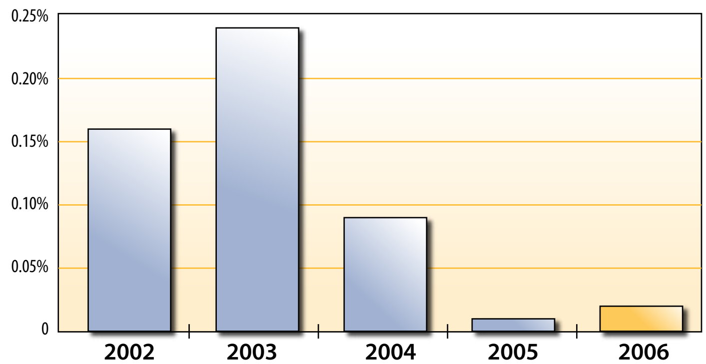
Non-interest expenses declined by $60,000 in 2006 compared to the prior year through an intensive focus on managing operating expenses. During the year, the management team evaluated each major expense category and identified a number of opportunities to improve efficiency. A major initiative to implement branch capture-of-deposit items lengthened the business day and improved funds collection for our customers while reducing associated transportation expense. The decision to outsource the centralized proof-of-deposit and statement processing function also added meaningfully to operational effectiveness.

Expense control was not achieved by compromising growth initiatives. We opened a new Business Banking Center in State College to focus on the development of Business Banking relationships in this rapidly growing market. We continued to invest in the infrastructure and technology necessary to maintain a reliable and efficient service-delivery platform. In addition to improving operational effectiveness, outsourcing proof-of-deposit and statement processing also enabled us to keep pace with the growing demand for electronic delivery of financial services.

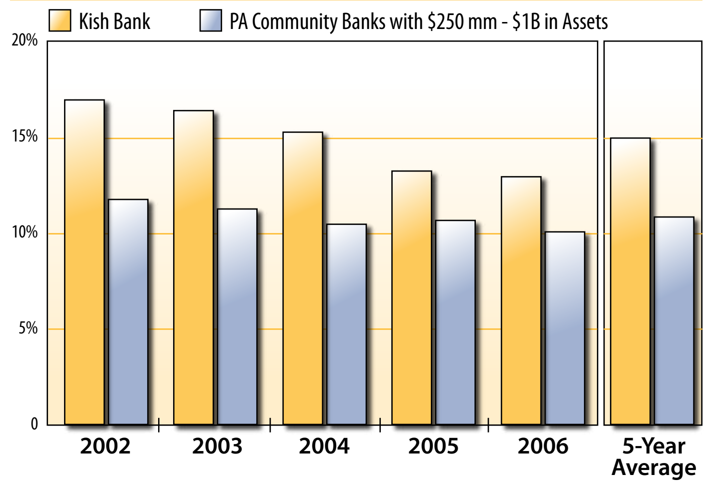
We also sustained our level of investment in training and developing our team of financial service professionals. In 2006, we completed the initial phase of a product training and certification program; ninety percent of our employees completed certification testing proving their broad-based knowledge regarding the full range of benefits available to customers in each of our lines of business. We enhanced the "Kish Rewards" loyalty program to provide greater value and responsiveness to our Priority Club members.

Kish Bancorp's efforts to grow earnings through market expansion showed continued results. Almost 50% of loan growth for 2006 was achieved in the State College market where we opened our first free standing branch in 2005. At the same time we achieved meaningful loan growth in Mifflin County where the Corporation's deposit market share already stood at 34%. In the Huntingdon area, our market share reached 17.3%.

Net Loan Losses as a Percent of Net Assets



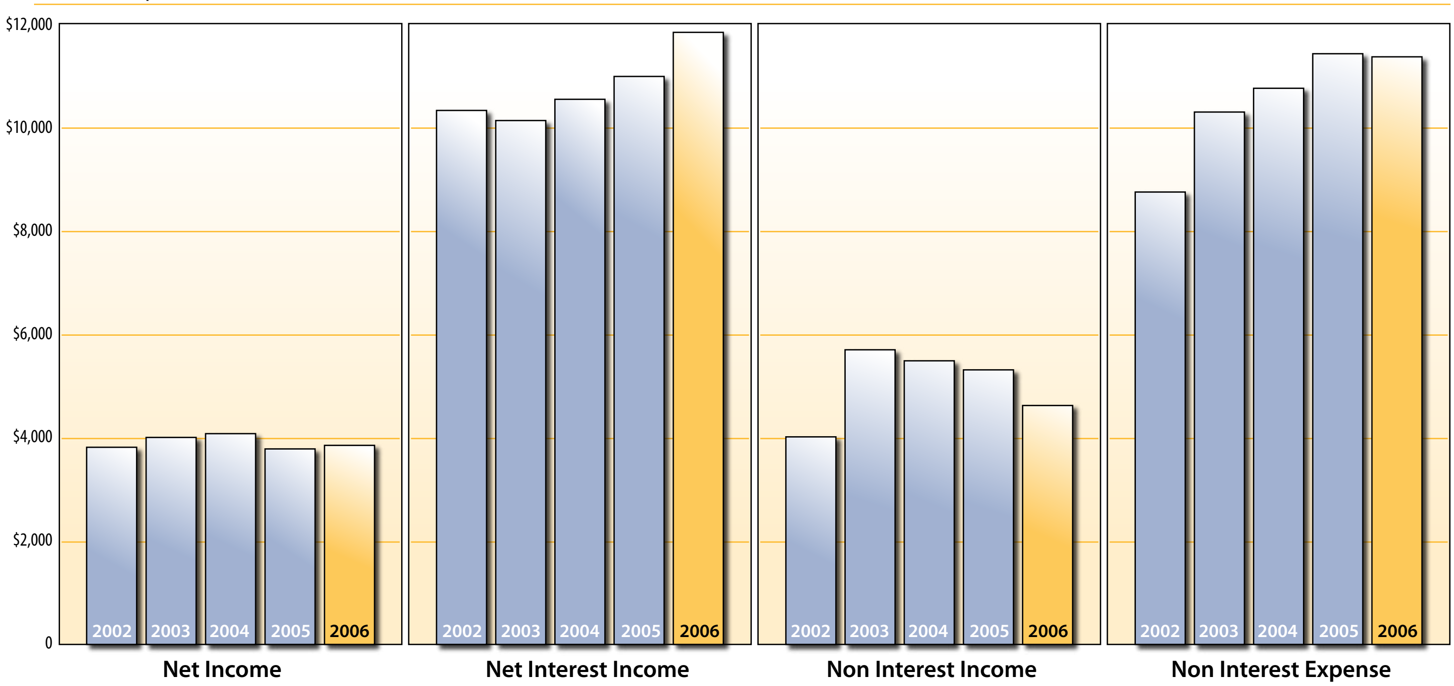
Return on Shareholder's Equity - Kish Bank vs. PA Community Banks



Our strategy in 2007 calls for the expansion of marketing efforts with a focus on growing customer awareness and use of all of our services -- banking, insurance, investment, and travel products and services. We have an established reputation for delivery of high-quality, business-banking services which we intend to continue to promote in all markets; particular emphasis will be placed on fully utilizing our new Business Banking Center in State College. We will be surveying our customers using focus groups and interviews, utilizing customer data to determine which customers might benefit from specific services, and fine-tuning our approach to customer education using newsletters and seminars. In 2007, a new Kish Bank website will be introduced that will be content rich and provide a higher level of on-line banking and financial services.

It will be an exciting year for Kish Bancorp with a focused marketing and sales approach for growing insurance, travel and investment services income, while continuing to expand interest income through increased loan and deposit growth. The diversified nature of Kish's revenues are built to withstand the buffeting winds of change for many years to come.

Five Year Comparison



Five-year Summary

For the Year	2006	2005	2004	2003	2002
Net Income	$3,848,451	$3,779,252	$4,073,977	$4,001,184	$3,810,946
Net Income Before Taxes	4,743,720	4,484,562	4,988,427	4,746,748	4,605,304
Total Dividends Declared*	1,527,572	1,397,675	964,680	1,135,858	1,024,828
At Year End (In $000s)					
Total Assets	$413,429	$411,964	$396,456	$356,556	$319,675
Total Loans (Net)	287,622	267,477	229,062	194,064	189,132
Total Deposits	319,352	300,591	281,793	248,762	227,764
Stockholders' Equity	29,687	28,338	28,663	26,391	25,175
Loan Loss Reserve	2,963	2,708	2,347	2,437	2,506
Net Loan Losses	93,608	22,554	370,670	853,644	505,689
Ratio Analysis					
Return on Average Assets	0.93%	0.95%	1.09%	1.19%	1.24%
Return on Average Equity	12.99%	13.29%	15.33%	16.46%	17.02%
Dividend Declared/Net Income*	39.69%	36.98%	23.68%	28.39%	26.89%
Loan/Deposits	90.06%	88.98%	81.29%	78.01%	83.04%
Primary Capital/Total Assets	7.90%	7.54%	7.82%	8.09%	8.66%
Net Loan Losses to Total Loans (Net)	0.03%	0.01%	0.16%	0.44%	0.27%
Per Share Data					
Basic Earnings	$6.94	$6.69	$7.16	$6.99	$6.52
Fully Diluted Earnings	6.90	6.63	7.08	6.94	6.45
Dividends Paid*	2.75	2.47	2.24	1.44	1.76
Equity (Book Value)	54.03	50.61	50.36	46.35	43.44
Equity Plus Loan Loss Reserve	59.43	55.44	54.48	50.63	47.76
Average Shares Outstanding	554,671	564,733	569,322	572,452	584,860

*In 2004, Kish Bancorp changed the dividend declaration date to coincide with the month in which the dividend was paid. In 2003, Kish Bancorp converted to a quarterly dividend from a semi-annual dividend in previous years. Both changes caused year-over-year comparisons to be distorted.

The Directors & Officers of Kish Bancorp, Inc.

Board of Directors of Kish Bancorp Inc. and Kish Bank

William P. Hayes, Chairman of the Board, President & Chief Executive Officer
Richard C. Calkins, Vice Chairman
William L. Dancy, Secretary/Treasurer
Richard L. Kalin, Director
James J. Lakso, Director
Phyllis L. Palm, Director

Mifflin County Regional Board

Ronald M. Cowan, Member
William L. Dancy, Member
Eric K. Fowler, M.D, Member
Nichola A. Hidlay, Member
Deborah S. Himes, Member
Robert E. Knable, Member
Alan Metzler, Member
Harvard K. McCardle, Member
John E. McCullough, Member
Phyllis L. Palm, Member
John Pannizzo, Member
Brian D. Schell, Member

Huntingdon County Regional Board

Wayne A. Hearn, Member
Steve Huston, Member
Patricia G. Kepple, Member
James J. Lakso, Member
Susan U. McLaughlin, Member
Robert L. Orr, Jr., Member
Pamela Prosser, Member
Burgess A. Smith, Member

Centre County Regional Board

Thomas F. Brown, Member
David Horner, Member
Richard L. Kalin, Member
Ashley H. Kranich, Member
Michael J. Krentzman, Member
Alison Kurtz, Member
Michael Negra, Member
Ellen L. Perry, Member
Karen P. Shute, Member

Executive Officers

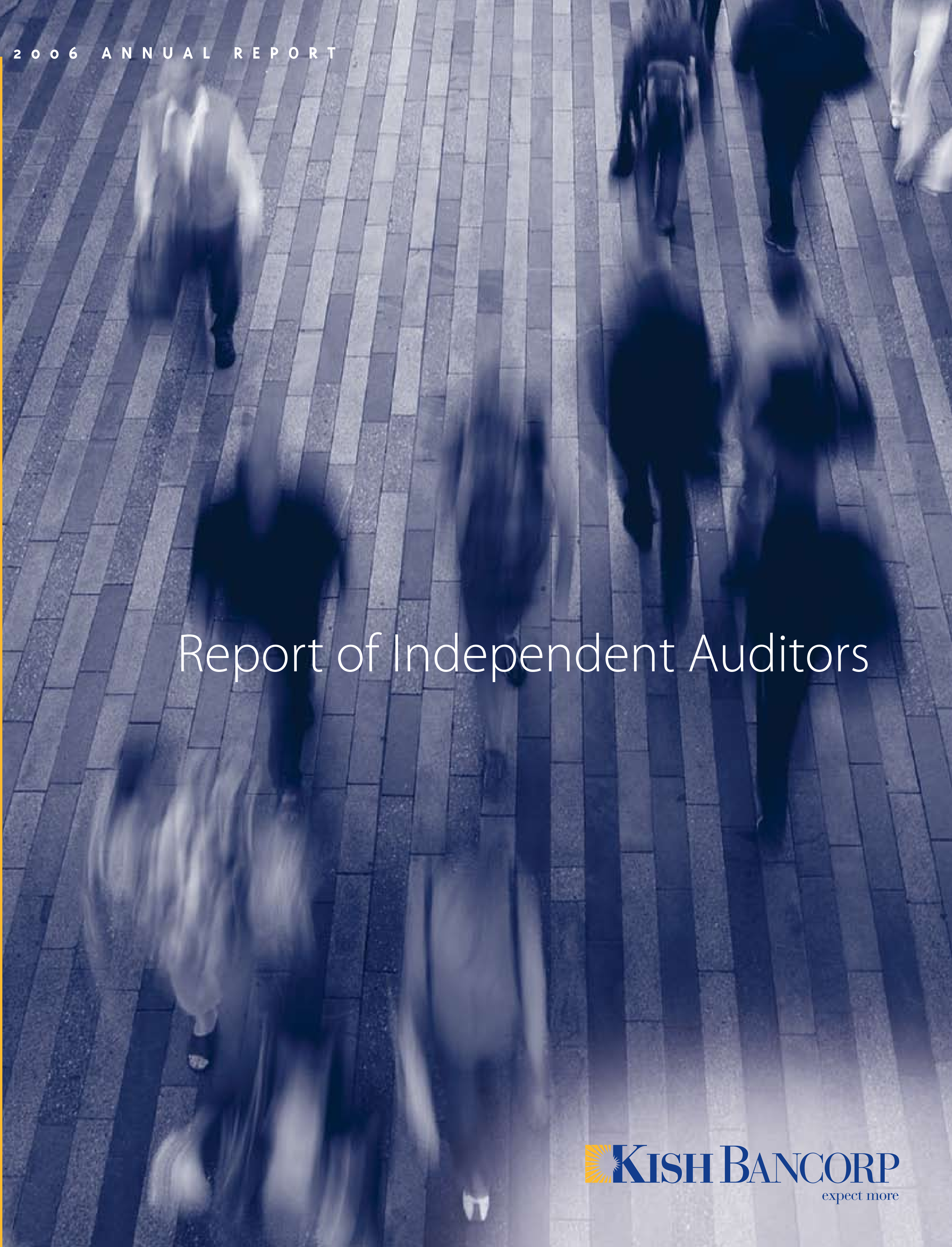
William P. Hayes, Chairman, President & Chief Executive Officer
Steven T. Kramm, Executive Vice President, Operations & Information Technology Manager
Robert S. McMinn, Executive Vice President, Client Solutions/General Counsel/Sr. Trust Officer
James L. Shilling, Jr., Executive Vice President, Senior Lending Officer

Senior Officers

Samuel Aspinwall, Vice President, Investment Services/ Principal Raymond James Officer
Larry E. Burger, Vice President, Commercial Relationship Manager
Janet B. Chambers, Vice President, Marketing
Ann K. Guss, Vice President, Senior Mortgage Originator
William D. Karch, Director of Business Development
Christopher P. Kelly, Vice President, Information Technology Manager
John Q. Massie, Regional Vice President, Agricultural Manager
Mark R. Merrifield, Regional Vice President
Kathy McCool, Vice President, Human Resource Manager
Amy M. Muchler, Vice President, Branch Service Quality Manager
Scott R. Reigle, Vice President, Accounting & Controls Manager
Gerhard Royer, Vice President, Chief Credit Officer
Cheryl E. Shope, Vice President, Retail Sales Manager
Lynn A. Thompson, Vice President, Commercial Lines
Lana M. Walker, Vice President, Commercial Relationship Manager
Jeffrey D. Wilson, Chief Executive Officer, Kish Agency

Officers

Stanley N. Ayers, Assistant Vice President, Credit Administration Manager
Nancy A. Benton, Business Banking Specialist
Kathleen M. Boop, Assistant Vice President, Personal Lines Insurance Manager
Holly C. Bowersox, Agency Account/Operations Manager
David A. Coble, Assistant Vice President, Commercial Relationship Manager/Branch Manager
James L. Cordell, Assistant Vice President, Branch Manager
John P. Cunningham, II, Assistant Vice President, Branch Manager
Jo Anna Cutshall, Assistant Vice President, Financial Advisor/Trust Manager
Lucinda K. Dell, Mortgage Administrator
Allana L. Hartung, Assistant Vice President, Branch Manager
Carol K. Kennedy, Consumer Lending Officer
Marsha K. Kuhns, Assistant Vice President, Branch Support Services Manager
Beverly M. McClellan, Senior Data Analyst
Gabriel P. Millar, Director Group Tours
James H. Roth, Jr., Collections Officer
Melissa K. Royer, Assistant Vice President, Assistant Branch Operations Manager/Product Development
Frances H. Stevenson, Assistant Vice President, Private Banking Officer
N. Robert Sunday, III, Business Banker
Kayelene Sunderland, Assistant Vice President, Assistant Investment Services Manager
Ralph D. Varner, Facilities and Security Manager
Debra K. Weikel, Assistant Vice President, Mortgage Underwriting Manager
D. Michael Whalen, General Manager, Kish Travel



2006 ANNUAL REPORT

Report of Independent Auditors

KISH BANCORP

expect more

Vision Statement

Our vision is to be the standard by which financial service providers are judged.

Mission Statement

Our mission is to create superior, long-term shareholder returns through an unwavering focus on fulfilling clients financial needs.

Kish Bancorp, Inc.
Consolidated Audited Financial Statements
December 31, 2006

Notice of Annual Meeting

The 2007 Annual Meeting of the Shareholders of Kish Bancorp, Inc. will be held Tuesday, May 8, 2007, at 5:30 p.m. at the Kishacoquillas Valley National Bank, 4225 East Main Street, Belleville, Pennsylvania.

Financial Highlights

Market and Dividend Information for 2006

In 2006, four quarterly dividends totaling $2.75 were paid. $0.67 per share was paid on January 31, April 30, and July 31, and $0.74 per share was paid October 31. These dividends were paid to shareholders of record on January 1, April 1, July 1, and October 1. In addition, a dividend of $0.74 per share was declared on January 2, 2007, payable on January 31, 2007 to shareholders of record as of January 1, 2007.

Stock in Kish Bancorp, Inc. is not actively traded on a national securities exchange. During 2006, trades occurred in the local over-the-counter market. To the extent of management's knowledge, sale prices ranged from $95.25 to $86.60 per share. At year-end, a bid price of $88.75 per share was available.

At December 31, 2006 there were 416 shareholders of record compared to 428 a year ago.

The following firms are market makers in the Corporation's stock:
Ferris, Baker Watts, Inc., 100 Light Street, Baltimore, MD 21202
877-840-0012
Hill Thompson Magid and Co., Inc., 15 Exchange Place Suite 800,
Jersey City, NJ 07302 866-291-6316

Report of Independent Auditors
Board of Directors and Stockholders
Kish Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Kish Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

S.R. Snodgrass, A.C.

Wexford, PA
March 5, 2007

	December 31, 2006	2005
ASSETS		
Cash and due from banks	$ 7,822,835	$ 8,464,106
Interest-bearing deposits with other institutions	439,106	254,879
Cash and cash equivalents	8,261,941	8,718,985
Certificates of deposits in other financial institutions	4,968,730	6,518,730
Investment securities available for sale	83,755,815	100,169,841
Investment securities held to maturity (market value of $253,125 and $513,750)	250,000	500,000
Loans held for sale	181,050	-
Loans	290,584,686	270,185,072
Less allowance for loan losses	2,962,724	2,708,332
Net loans	287,621,962	267,476,740
Premises and equipment	8,613,709	8,833,488
Goodwill	1,712,078	1,712,078
Regulatory stock	3,189,600	3,487,100
Bank-owned life insurance	8,735,343	8,413,335
Accrued interest and other assets	6,138,525	6,133,375
TOTAL ASSETS	$ 413,428,753	$ 411,963,672
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 36,258,258	$ 41,431,536
Interest-bearing demand	6,552,232	3,802,099
Savings	25,979,865	29,316,701
Money market	92,495,510	78,181,556
Time	158,066,594	147,859,340
Total deposits	319,352,459	300,591,232
Short-term borrowings	6,755,017	12,775,000
Other borrowings	53,678,782	66,659,131
Accrued interest and other liabilities	3,955,874	3,599,961
TOTAL LIABILITIES	383,742,132	383,625,324
STOCKHOLDERS' EQUITY		
Common stock, $.50 par value; 2,000,000 shares authorized, 610,000 shares issued	305,000	305,000
Additional paid-in capital	972,940	991,161
Retained earnings	35,026,141	32,705,261
Accumulated other comprehensive loss	(931,052)	(961,024)
Treasury stock, at cost (60,594 and 50,038 shares)	(5,686,408)	(4,702,050)
TOTAL STOCKHOLDERS' EQUITY	29,686,621	28,338,348
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 413,428,753	$ 411,963,672

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2006	2005
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 19,341,751	$ 16,091,859
Exempt from federal income tax	669,555	594,681
Interest and dividends on investment securities:		
Taxable	2,096,421	2,528,436
Exempt from federal income tax	1,492,274	1,839,686
Interest-bearing deposits with other institutions	170,170	201,212
Other dividend income	361,483	230,029
Total interest and dividend income	24,131,654	21,485,903
INTEREST EXPENSE		
Deposits	8,812,941	6,766,206
Short-term borrowings	495,355	262,046
Other borrowings	2,992,926	3,479,252
Total interest expense	12,301,222	10,507,504
NET INTEREST INCOME	11,830,432	10,978,399
Provision for loan losses	348,000	384,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,482,432	10,594,399
NONINTEREST INCOME		
Service fees on deposit accounts	1,405,801	1,357,375
Investment securities gains, net	436,518	1,126,889
Gain on sale of loans, net	244,056	217,570
Earnings on bank-owned life insurance	306,008	295,780
Insurance commissions	822,475	807,370
Travel agency commissions	351,854	243,125
Other	1,051,737	1,258,751
Total noninterest income	4,618,449	5,306,860
NONINTEREST EXPENSE		
Salaries and employee benefits	6,274,935	6,085,568
Occupancy and equipment	1,383,086	1,377,477
Data processing	990,907	925,848
Professional fees	139,366	129,020
Advertising	189,419	432,914
Other	2,379,448	2,465,870
Total noninterest expense	11,357,161	11,416,697
Income before income taxes	4,743,720	4,484,562
Income taxes	895,269	705,310
NET INCOME	$ 3,848,451	$ 3,779,252
EARNINGS PER SHARE		
Basic	$ 6.94	$ 6.69
Diluted	6.90	6.63

See accompanying notes to the consolidated financial statements.

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance, December 31, 2004	$ 305,000	$ 1,086,512	$ 30,323,684	$ 695,394	$ (3,747,178)	$ 28,663,412	
Net income			3,779,252			3,779,252	$ 3,779,252
Other comprehensive loss:							
Unrealized loss on available-for-sale securities, net of reclassification adjustment, net of tax benefit of $856,748				(1,656,418)		(1,656,418)	(1,656,418)
Comprehensive loss							$ 2,122,834
Cash dividends ($2.47 per share)			(1,397,675)			(1,397,675)	
Exercise of stock options (8,886 shares)		(101,823)			806,931	705,108	
Purchase of treasury stock (19,628 shares)					(1,898,547)	(1,898,547)	
Sale of treasury stock (1,512 shares)		6,472			136,744	143,216	
Balance, December 31, 2005	305,000	991,161	32,705,261	(961,024)	(4,702,050)	28,338,348	
Net income			3,848,451			3,848,451	$ 3,848,451
Other comprehensive income:							
Unrealized gain on available-for-sale securities, net of reclassification adjustment, net of taxes of $18,675				29,972		29,972	29,972
Comprehensive income							$ 3,878,423
Cash dividends ($2.75 per share)			(1,527,571)			(1,527,571)	
Exercise of stock options (2,522 shares)		(18,880)			229,257	210,377	
Purchase of treasury stock (13,243 shares)					(1,228,510)	(1,228,510)	
Sale of treasury stock (165 shares)		659			14,895	15,554	
Balance, December 31, 2006	$ 305,000	$ 972,940	$ 35,026,141	$ (931,052)	$ (5,686,408)	$ 29,686,621	

	2006	2005
Components of other comprehensive income (loss):		
Change in net unrealized gain (loss) on investments available for sale	$ 318,074	$ (912,671)
Realized gains included in net income, net of taxes of $148,416 and $383,142	(288,102)	(743,747)
Total	$ 29,972	$ (1,656,418)

See accompanying notes to consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2006	2005
OPERATING ACTIVITIES		
Net income	$ 3,848,451	$ 3,779,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	348,000	384,000
Investment securities gains, net	(436,518)	(1,126,889)
Proceeds from sale of loans held for sale	8,140,353	7,654,408
Origination of loans held for sale	(8,077,347)	(7,438,220)
Gain on sales of loans, net	(244,056)	(216,188)
Depreciation, amortization and accretion	959,393	982,496
Deferred income taxes	(16,688)	(196,414)
Decrease (increase) in accrued interest receivable	39,097	(53,311)
Increase in accrued interest payable	184,097	134,524
Earnings on bank-owned life insurance	(306,008)	(295,780)
Other, net	(218,880)	(303,259)
Net cash provided by operating activities	4,219,894	3,304,619
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sale of investments	15,980,517	32,861,944
Proceeds from repayments and maturities	5,623,864	6,993,560
Purchases	(5,161,670)	(13,914,973)
Proceeds from sale of other real estate owned	325,360	600,984
Investment securities held to maturity:		
Proceeds from repayments and maturities	250,000	-
Maturities of certificates of deposit	1,700,000	411,670
Increase in loans, net	(20,493,222)	(39,040,284)
Purchase of regulatory stock	(985,600)	-
Redemption of regulatory stock	1,283,100	437,100
Purchases of premises and equipment	(480,004)	(1,934,325)
Sale of premises and equipment	49,972	-
Net cash used for investing activities	(1,907,683)	(13,584,324)
FINANCING ACTIVITIES		
Increase in deposits, net	18,761,227	18,798,401
Increase (decrease) in short-term borrowings, net	(6,019,983)	410,228
Proceeds from other borrowings	2,762,500	7,106,100
Repayments of other borrowings	(15,742,849)	(10,534,013)
Purchases of treasury stock	(1,228,510)	(1,898,547)
Proceeds from sale of treasury stock	15,554	143,216
Exercise of stock options	210,377	705,108
Cash dividends	(1,527,571)	(1,397,675)
Net cash provided by (used for) financing activities	(2,769,255)	13,332,818
Increase (decrease) in cash and cash equivalents	(457,044)	3,039,486
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,718,985	5,679,499
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,261,941	$ 8,718,985
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 12,117,125	$ 10,372,980
Income taxes	740,000	791,000

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Basis of Presentation

Kish Bancorp, Inc. (the "Company") is a diversified financial services organization whose principal activity is the ownership and management of its wholly owned subsidiaries, Kishacoquillas Valley National Bank (the "Bank"), Kish Travel Services, Inc., and the Bank's wholly owned subsidiary, Kish Agency, Inc. The Company generates commercial and agricultural, commercial mortgage, residential real estate, and consumer loans and deposit services to its customers located primarily in central Pennsylvania and the surrounding areas. The Bank operates under a national bank charter and provides full banking services. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law. Kish Agency, Inc. provides insurance products and services and is a wholly owned subsidiary. 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 wholly owned subsidiaries, Kishacoquillas Valley National Bank and Kish Travel Services, Inc., after elimination of all material intercompany transactions and balances.

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles 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 or securities available for sale. 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. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. 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. Interest and dividends on investment securities are recognized as income when earned.

Common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") 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.

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

Loans

Loans are stated at the principal amount outstanding, net of any unearned income, deferred loan fees, and the allowance for loan losses. Interest on consumer loans is credited to operations over the term of each loan using a method that approximates a level yield or the simple interest method. Interest income on mortgage loans is accrued on the amortized balance. Interest income on other loans is accrued on the principal amount outstanding. Loan fees that represent an adjustment to interest yield are deferred and amortized over the life of the loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued when it is determined that a reasonable doubt exists as to the collectibility of additional interest. When a loan is placed on nonaccrual status, unpaid interest is charged against income. Payments received on nonaccrual loans are either applied to principal or reported as interest income according to management's judgment as to the collectibility of principal. Loans are returned to accrual status when past due interest is collected and the collection of principal is probable.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio, as of the 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 commercial and commercial real estate loans 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 individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectibility, while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

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

Intangible Assets

Intangible assets include core deposit intangibles. The core deposit intangibles are being amortized over a ten-year life on a straight-line basis. The recoverability of the carrying value of intangible assets is evaluated on an ongoing basis and permanent declines in value, if any, are charged to expense.

Goodwill

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards ("FAS") No. 142, *Goodwill and Other Intangible Assets*. This statement, among other things, requires 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. The Company performs an annual impairment analysis of goodwill. Based on the fair value of the reporting unit, estimated using the expected present value of future cash flows, no impairment of goodwill was recognized in 2006 and 2005.

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 minus 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In December 2004, the FASB issued FAS No. 123R, *Share-Based Payment*, which revised FAS 123, *Accounting for Stock-Based Compensation*, and superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. FAS 123R requires the grant-date fair value of all share-based payment awards that are expected to vest, including employee share options, to be recognized as employee compensation expense over the requisite service period. The Company adopted FAS 123R on January 1, 2006 and applied the modified prospective transition method. Under this transition method, the Company (1) did not restate any prior periods and (2) are recognizing compensation expense for all share-based payment awards that were outstanding, but not yet vested, as of January 1, 2006, based upon the same estimated grant-date fair values and service periods used to prepare the FAS 123 pro-forma disclosures.

Prior to adopting FAS 123R, the Company accounted for share-based payment awards using the intrinsic value method of APB 25 and related interpretations. Under APB 25, the Company did not record compensation expense for employee share options, unless the awards were modified, because the share options were granted with exercise prices equal to or greater than the fair value of our stock on the date of grant. The following table illustrates the effect on reported net income and earnings per share applicable to common shareholders for the years ended December 31, 2005, had we accounted for our share-based compensation plans using the fair value method of FAS 123:

	2005
Net income as reported	$ 3,779,252
Less pro forma expense related to option	193,127
Pro forma net income	$ 3,586,125
Basic net income per common share:	
As reported	$ 6.69
Pro forma	6.35
Diluted net income per common share:	
As reported	$ 6.63
Pro forma	6.29

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Options (Continued)

During the year ended December 31, 2005, the Company accelerated their vesting and all shares outstanding became fully vested. Therefore, as of December 31, 2006, the Company recorded no compensation expense related to our share-based compensation awards.

FAS 123R requires that the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) be classified as financing cash flows. Accordingly, $14,736 excess tax benefits has been classified as a financing cash inflow for the year ended December 31, 2006 in the Consolidated Statements of Cash Flows. Such excess tax benefits amounted to $76,913 for the year ended December 31, 2005.

For purposes of computing pro forma results, 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. Therefore, the pro forma results are estimates of results of operations as if compensation expense had been recognized for the stock option plans. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

Grant Year	Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility	Expected Life (in years)
2002	1.92 %	3.85 %	8.87	10.00
2003	2.22	4.29	1.89	10.00
2004	2.40	4.22	9.16	10.00
2005	2.32	4.32	6.60	10.00

The weighted average fair value of each stock option granted for 2006 and 2005 was $0.00 and $4.28, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006 and 2005, was $9,180 and $34,187, respectively.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for most of these 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. MSRs are a component of 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.

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.

	2006	2005
Weighted-average common shares outstanding	610,000	610,000
Average treasury stock shares	(55,329)	(45,267)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	554,671	564,733
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	2,913	5,130
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	557,584	569,863

Options to purchase 22,493 shares of common stock at a price of $93.00 to $96.75, as of December 31, 2006 and 2005, were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

3. INVESTMENT SECURITIES

The amortized cost and estimated market value of investment securities are as follows:

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
U.S. government agency securities	$ 10,131,332	$ 141	$ (213,527)	$ 9,917,946
Obligations of state and political subdivisions	38,259,176	124,639	(544,251)	37,839,564
Corporate securities	21,931,623	46,141	(586,414)	21,391,350
Mortgage-backed securities	12,176,263	11,319	(383,897)	11,803,685
Total debt securities	82,498,394	182,240	(1,728,089)	80,952,545
Equity securities	2,661,607	278,286	(136,623)	2,803,270
Total	$ 85,160,001	$ 460,526	$ (1,864,712)	$ 83,755,815

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
Corporate securities	$ 250,000	$ 3,125	$ -	$ 253,125

3. INVESTMENT SECURITIES (Continued)

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for Sale				
U.S. government agency securities	$ 9,665,756	$ 985	$ (221,337)	$ 9,445,404
Obligations of state and political subdivisions	47,215,190	336,392	(870,875)	46,680,707
Corporate securities	25,717,609	88,890	(553,500)	25,252,999
Mortgage-backed securities	14,450,798	19,590	(411,835)	14,058,553
Total debt securities	97,049,353	445,857	(2,057,547)	95,437,663
Equity securities	4,580,088	458,883	(306,793)	4,732,178
Total	$ 101,629,441	$ 904,740	$ (2,364,340)	$ 100,169,841

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Held to Maturity				
Corporate securities	$ 500,000	$ 13,750	$ -	$ 513,750

The following table shows 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, 2006 and 2005.

	2006					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 9,867,804	$ (213,527)	$ 9,867,804	$ (213,527)
Obligations of states and political subdivisions	1,876,128	(2,757)	25,032,019	(541,494)	26,908,147	(544,251)
Corporate securities	1,294,857	(11,357)	18,552,391	(575,057)	19,847,248	(586,414)
Mortgage-backed securities	-	-	10,667,973	(383,897)	10,667,973	(383,897)
Total debt securities	3,170,985	(14,114)	64,120,187	(1,713,975)	67,291,172	(1,728,089)
Equity securities	742,118	(60,202)	564,808	(76,421)	1,306,926	(136,623)
Total	$ 3,913,103	$ (74,316)	$ 64,684,995	$ (1,790,396)	$ 68,598,098	$ (1,864,712)

3. INVESTMENT SECURITIES (Continued)

	2005					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. government agency securities	$ 6,177,469	$ (127,212)	$ 3,216,951	$ (94,125)	$ 9,394,420	$ (221,337)
Obligations of states and political subdivisions	15,359,422	(154,737)	20,408,916	(716,138)	35,768,338	(870,875)
Corporate securities	9,593,507	(186,314)	10,867,952	(367,186)	20,461,459	(553,500)
Mortgage-backed securities	7,253,687	(187,429)	4,325,601	(224,406)	11,579,288	(411,835)
Total debt securities	38,384,085	(655,692)	38,819,420	(1,401,855)	77,203,505	(2,057,547)
Equity securities	1,339,631	(151,103)	663,534	(155,690)	2,003,165	(306,793)
Total	$ 39,723,716	$ (806,795)	$ 39,482,954	$ (1,557,545)	$ 79,206,670	$ (2,364,340)

The policy of the Company is to recognize an other-than-temporary impairment of securities where the fair value has been significantly below cost for three consecutive quarters. For fixed maturity investments with unrealized losses due to interest rates where the Company has the positive intent and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. There are 164 positions that are temporarily impaired at December 31, 2006. The Company reviews its position quarterly and has asserted that at December 31, 2006, the declines outlined in the above table represent temporary declines and the Company does have the intent and ability to hold those securities to maturity or to allow a market recovery.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes, sector credit changes, or Company-specific rating changes that are not expected to result in the noncollection of principal and interest during the period. The Company recorded a $12,660 impairment loss as of December 31, 2006, related to mutual funds.

The amortized cost and estimated market values of debt securities at December 31, 2006, 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 (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 1,692,963	$ 1,678,831	$ -	$ -
Due after one year through five years	24,332,906	23,713,493	-	-
Due after five years through ten years	39,401,003	38,842,382	-	-
Due after ten years	17,021,522	16,667,698	250,000	253,125
Total	$ 82,448,394	$ 80,902,404	$ 250,000	$ 253,125

Investment securities with a carrying value of $42,865,229 and $37,847,582 at December 31, 2006 and 2005, respectively, were pledged to secure deposits and other purposes as required by law.

3. INVESTMENT SECURITIES (Continued)

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:

	2006	2005
Proceeds from sales	$ 15,980,517	$ 32,861,944
Gross gains	801,368	1,476,783
Gross losses	(352,190)	(349,894)
Other-than-temporary loss	(12,660)	-

4. LOANS

Major classifications of loans are summarized as follows:

	2006	2005
Commercial and agricultural	$ 67,919,324	$ 57,689,962
Real estate mortgages:		
Residential	110,629,456	91,154,740
Construction	11,944,586	14,293,255
Commercial	91,197,957	98,143,277
Installment	6,971,623	6,625,024
Lines of credit	1,921,740	2,278,814
	290,584,686	270,185,072
Less allowance for loan losses	2,962,724	2,708,332
Net loans	$ 287,621,962	$ 267,476,740

Mortgage loans serviced by the Company for others amounted to $63,641,020 and $66,056,661 at December 31, 2006 and 2005, respectively.

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	2006	2005
Balance, January 1	$ 2,708,332	$ 2,346,886
Add:		
Provisions charged to operations	348,000	384,000
Recoveries	32,626	54,935
Less loans charged off	(126,234)	(77,489)
Balance, December 31	$ 2,962,724	$ 2,708,332

4. LOANS (Continued)

The Company had nonaccrual loans, inclusive of impaired loans, of $2,767,507 and $969,270 at December 31, 2006 and 2005, respectively. Interest income on loans would have increased by approximately $24,920 and $80,112 during 2006 and 2005, respectively, if these loans had performed in accordance with their original terms.

	2006	2005
Impaired loans		
With a related allowance for loan losses	$ 3,182,462	$ 1,927,643
Without a related allowance for loan losses	257,781	-
Related allowance for loan losses	1,109,000	939,000
Average recorded balance of impaired loans	2,453,057	1,930,714
Interest income recognized on impaired loans	203,698	103,612

The Company grants residential, commercial, and consumer loans to customers throughout its trade area that is concentrated in central Pennsylvania. Although the Company has a diversified loan portfolio at December 31, 2006 and 2005, 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, 2006, is as follows:

2005	Additions	Amounts Collected	2006
$ 6,201,479	$ 2,942,807	$ 4,417,951	$ 4,726,335

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2006	2005
Land and land improvements	$ 793,458	$ 793,458
Building and leasehold improvements	8,854,386	8,792,871
Furniture, fixtures, and equipment	3,264,472	3,190,498
	12,912,316	12,776,827
Less accumulated depreciation	4,298,607	3,943,339
Total	$ 8,613,709	$ 8,833,488

Depreciation and amortization charged to operations was $615,972 in 2006 and $630,736 in 2005.

6. INTANGIBLE ASSETS

A summary of intangible assets is as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Balance at December 31, 2004	$ 401,676	$ (284,580)	$ 117,096
Amortization expense	-	(40,176)	(40,176)
Balance at December 31, 2005	401,676	(324,756)	76,920
Amortization expense	-	(40,176)	(40,176)
Balance at December 31, 2006	$ 401,676	$ (364,932)	$ 36,744

The net intangible asset balance of $36,744 will be fully amortized during the year ending December 31, 2007.

7. GOODWILL

As of December 31, 2006 and 2005, goodwill had a gross carrying amount of $2,326,091 for each year and an accumulated amortization amount of $614,013, resulting in a net carrying amount of $1,712,078 for each year. There was no amortization expense for 2006 and 2005.

The gross carrying amount of goodwill was tested for impairment in the third quarter, after the annual forecasting process. Due to an increase in overall earning asset growth, operating profits and cash flows were greater than expected. Based on fair value of the reporting unit, estimated using the expected present value of future cash flows, no goodwill impairment loss was recognized in the current year.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2007	$ 114,266,122
2008	22,368,382
2009	8,345,739
2010	4,120,246
2011	4,167,720
Thereafter	4,798,385
	$ 158,066,594

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $49,466,320 and $39,544,504 at December 31, 2006 and 2005, respectively.

Maturities on time deposits of $100,000 or more at December 31, 2006 are as follows:

Within three months	$ 21,536,850
Beyond three but within six months	11,820,071
Beyond six but within twelve months	6,561,371
Beyond one year	9,548,028
Total	$ 49,466,320

9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, Federal Funds Sold, repurchase agreement with customers, and a $7,500,000 unsecured line of credit with Bank of Lancaster County. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2006	2005
Balance at year-end	$ 6,755,017	$ 12,775,000
Average balance outstanding	8,834,545	7,080,165
Maximum month-end balance	13,160,095	12,775,000
Weighted-average rate at year-end	5.89%	4.58%
Weighted-average rate during the year	5.61%	3.70%

10. OTHER BORROWINGS

The following table sets forth information concerning other borrowings:

Description	Maturity range from	Maturity range to	Weighted-average interest rate	Stated interest rate range from	Stated interest rate range to	At December 31, 2006	At December 31, 2005
Adjustable rate	05/20/08	-	5.31 %	5.31 %	- %	$ 1,500,000	$ 1,500,000
Convertible	12/20/07	11/09/11	4.74	3.17	6.87	15,000,000	23,000,000
Fixed rate	12/03/07	11/14/17	4.70	3.59	7.48	21,523,946	24,743,846
Fixed rate amortizing	06/12/17	06/26/18	5.46	5.13	6.53	1,527,336	1,629,285
Mid-term repos	01/09/07	09/01/09	4.08	2.63	5.12	7,941,500	9,600,000
Note payable	03/17/35	11/23/35	6.32	6.11	6.52	6,186,000	6,186,000
						$ 53,678,782	$ 66,659,131

Maturities of other borrowings at December 31, 2006, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2007	$ 11,782,604	3.45 %
2008	8,947,497	4.74
2009	4,886,385	4.41
2010	8,834,862	6.28
2011	7,365,883	4.54
2012 and after	11,861,551	5.61
	$ 53,678,782	4.85 %

Under the terms of the adjustable rate borrowing, the FHLB adjusts the interest rate weekly based on the published Federal Funds rate. The terms of the convertible borrowings allow the FHLB to convert the interest rate to an adjustable rate based on the three-month London Interbank Offered Rate ("LIBOR") at a predetermined anniversary year of the borrowing's origination, ranging from one to seven years. These initial conversion dates range from January 2007 through March 2007. The fixed rate amortizing borrowings require monthly payments of principal and interest of $11,964 through June 2017 and $3,737 through June 2018.

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, 2006, the Bank's maximum borrowing capacity with the FHLB was approximately $144 million.

10. OTHER BORROWINGS (Continued)

The Company established a special purpose Entity on April 28, 2000. The Entity issued $6,188,000 of capital securities with a stated maturity of September 30, 2030. These securities bear an annual interest rate of 9.25 percent, and interest is payable semiannually on March 31 and September 30. As of September 30, 2005, the Entity redeemed all of the capital securities at their principal amount plus any accrued and unpaid interest.

In March 2005, 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. These securities bear a fixed rate of 6.52 percent until March 2010 at which time the rate 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 March 2005 in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's balance sheet.

In September 2005, 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 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 September 2005 in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's balance sheet.

Under current accounting rules, the Company's minority interest in the Entity was recorded at the initial investment amount and is included in the other assets section of the balance sheet. The Entity is not consolidated as part of the Company's consolidated financial statements.

11. INCOME TAXES

The provision for federal income taxes consists of:

	2006	2005
Current payable	$ 911,957	$ 901,724
Deferred	(16,688)	(196,414)
Total provision	$ 895,269	$ 705,310

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:

	2006	2005
Deferred tax assets:		
Allowance for loan losses	$ 1,007,326	$ 920,833
Deferred compensation	355,318	367,825
Core deposit intangible assets	51,029	36,839
Alternative minimum tax carryforward	145,528	202,845
Unrealized loss on available-for-sale securities	479,633	495,073
Other	111,093	124,020
Deferred tax assets	2,149,927	2,147,435
Deferred tax liabilities:		
Premises and equipment	145,919	152,208
Goodwill	253,225	232,451
Deferred loan fees	163,125	176,366
Deferred tax liabilities	562,269	561,025
Net deferred tax assets	$ 1,587,658	$ 1,586,410

11. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2006 and 2005, in view of the Company's ability to carryback to 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 Bank's effective consolidated income tax rate is as follows:

	2006			2005		
	Amount	% of Pretax Income		Amount	% of Pretax Income	
Provision at statutory rate	$ 1,612,865	34.0	%$	1,524,751	34.0	%
Tax-exempt interest	(735,022)	(15.5)		(827,685)	(18.5)	
Life insurance income	(98,141)	(2.1)		(92,282)	(2.1)	
Other	115,567	2.5		100,526	2.3	
Actual tax expense and effective rate	$ 895,269	18.9	%$	705,310	15.7	%

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 $192,420 and $188,650 for the years ended December 31, 2006 and 2005, respectively. The fair value of plan assets includes $871,703 pertaining to the value of the Company's common stock that is held by the plans.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan that allows directors to defer fees. Outstanding balances under this arrangement for 2006 and 2005 were $1,045,052 and $1,081,837, respectively, and are reported as "other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were $86,264 and $64,063 for December 31, 2006 and 2005, respectively.

Stock Option Plan

The Company has a fixed director and employee stock-based compensation plan. The plan was amended on May 16, 2006, to approve an additional 100,000 shares, changing total options available to grand under the plan to 190,000 shares of common stock. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant.

Options granted prior to November 22, 2005, are primarily vested evenly over a three-year period from the grant date. The remaining unvested options granted prior to this date were accelerated whereby all options granted since inception are fully vested. Options granted subsequent to November 22, 2005, were immediately vested. Options granted subsequent to December 31, 2005, are primarily vested evenly over a three-year period from the grant date.

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

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

	2006		Weighted-average Exercise Price	2005		Weighted-average Exercise Price
Outstanding, January 1	62,977	$	86.66	57,262	$	82.17
Granted	950		93.93	19,757		93.87
Exercised	(2,522)		77.49	(8,886)		70.70
Forfeited	(1,502)		92.65	(5,156)		91.95
Outstanding, December 31	59,903	$	87.01	62,977	$	86.66
Exercisable at year-end	59,903	$	87.01	62,977	$	86.66

The following table summarizes the characteristics of stock options at December 31, 2006:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
12/23/97	$ 40.00	2,600	0.97	$ 40.00	2,600	$ 40.00
12/23/98	62.50	1,875	1.97	62.50	1,875	62.50
01/27/00	76.00	3,847	3.08	76.00	3,847	76.00
01/11/01	79.00	4,728	4.03	79.00	4,728	79.00
01/24/02	90.00	7,244	5.06	90.00	7,244	90.00
02/21/02	91.00	8	5.14	91.00	8	91.00
02/27/03	90.00	5,434	6.16	90.00	5,434	90.00
08/01/03	90.00	1,110	6.58	90.00	1,110	90.00
09/02/03	90.00	2,222	6.67	90.00	2,222	90.00
12/29/03	91.25	3,292	7.00	91.25	3,292	91.25
03/16/04	91.25	5,050	7.21	91.25	5,050	91.25
05/26/04	94.00	734	7.40	94.00	734	94.00
06/10/04	96.00	950	7.44	96.00	950	96.00
06/30/04	96.75	2,618	7.50	96.75	2,618	96.75
01/05/05	93.00	9,793	8.01	93.00	9,793	93.00
02/03/05	93.00	380	8.09	93.00	380	93.00
02/09/05	93.00	26	8.11	93.00	26	93.00
02/10/05	95.00	100	8.11	95.00	100	95.00
02/24/05	96.00	42	8.15	96.00	42	96.00
03/29/05	96.00	3	8.24	96.00	3	96.00
04/26/05	96.00	441	8.32	96.00	441	96.00
07/08/05	96.00	333	8.52	96.00	333	96.00
12/08/05	95.00	1,770	8.94	95.00	1,770	95.00
12/10/05	95.25	3	8.94	95.25	3	95.25
12/16/05	95.00	150	8.96	95.00	150	95.00
12/22/05	95.00	5,150	8.98	95.00	5,150	95.00
		59,903			59,903	

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. 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:

	2006	2005
Commitments to extend credit	$ 58,571,463	$ 61,158,301
Standby letters of credit	5,368,175	6,037,809
Total	$ 63,939,638	$ 67,196,110

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.

The Bank has committed to various operating leases for their branch and office facilities. Some of these leases include renewal options as well as specific provisions relating to rent increases. The minimum annual rental commitments under these leases outstanding at December 31, 2006 are as follows:

	Minimum Lease Payment
2007	$ 116,360
2008	116,360
2009	105,680
2010	73,640
2011	73,640
Thereafter	1,100,520
Total	$ 1,586,200

Rent expense under leases for each of the years ended December 31, 2006 and 2005, was $70,600 and $70,028, respectively.

Contingent Liabilities

The Bank is involved 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 Bank'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, 2006 and 2005, was $1,006,000 and $1,017,000, 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 of 10 percent of the Bank's common stock and capital surplus.

Dividends

The approval of the Comptroller of the Currency is required before a national bank can pay any dividends up to the Company if the total of all dividends declared in any calendar year would exceed net profits, as defined for that year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. Under this formula, the amount available for payment of dividends in 2007, without prior approval of the Comptroller, is approximately $4.2 million plus net profits retained in 2007 up to the date of the dividend declaration.

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, 2006 and 2005, 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.

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

	2006		2005	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 37,908,526	11.12 %	$ 36,183,633	10.70 %
For Capital Adequacy Purposes	27,261,735	8.00	27,044,772	8.00
To Be Well Capitalized	34,077,169	10.00	33,805,964	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 34,707,054	10.18 %	$ 33,241,860	9.83 %
For Capital Adequacy Purposes	13,630,867	4.00	13,522,386	4.00
To Be Well Capitalized	20,446,301	6.00	20,283,579	6.00
Tier I Capital (to Average Assets)				
Actual	$ 34,707,055	8.39 %	$ 33,241,860	8.19 %
For Capital Adequacy Purposes	16,545,015	4.00	16,236,540	4.00
To Be Well Capitalized	20,681,269	5.00	20,295,674	5.00

15. REGULATORY CAPITAL (Continued)

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

	2006		2005	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 37,255,743	11.08 %	$ 35,344,460	10.69 %
For Capital Adequacy Purposes	26,907,683	8.00	26,462,778	8.00
To Be Well Capitalized	33,634,604	10.00	33,078,473	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 34,118,019	10.14 %	$ 32,471,128	9.82 %
For Capital Adequacy Purposes	13,453,841	4.00	13,231,389	4.00
To Be Well Capitalized	20,180,762	6.00	19,847,084	6.00
Tier I Capital (to Average Assets)				
Actual	$ 34,118,019	8.33 %	$ 32,471,128	8.11 %
For Capital Adequacy Purposes	16,389,427	4.00	16,014,892	4.00
To Be Well Capitalized	20,486,784	5.00	20,018,615	5.00

16. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 8,261,941	$ 8,261,941	$ 8,718,985	$ 8,718,985
Certificates of deposit	4,968,730	4,968,730	6,518,730	6,518,730
Investment securities:				
Available for sale	83,755,815	83,755,815	100,169,841	100,169,841
Held to maturity	250,000	253,125	500,000	513,750
Loans held for sale	181,050	181,050	-	-
Net loans	287,621,962	286,080,942	267,476,740	267,584,390
Regulatory stock	3,189,600	3,189,600	3,487,100	3,487,100
Bank-owned life insurance	8,735,343	8,735,343	8,413,335	8,413,335
Accrued interest receivable	2,157,524	2,157,524	2,196,621	2,196,621
Mortgage servicing rights	503,599	515,492	465,650	478,509
Financial liabilities:				
Deposits	$ 319,352,459	$ 318,624,194	$ 300,591,232	$ 300,098,239
Short-term borrowings	6,755,017	6,755,017	12,775,000	12,775,000
Other borrowings	53,678,782	53,874,611	66,659,131	67,145,994
Accrued interest payable	1,624,782	1,624,782	1,440,685	1,440,685

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

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

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

16. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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, Regulatory Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings

The fair value is equal to the current carrying value.

Bank-Owned Life Insurance

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

Investment Securities and Loans Held For Sale

The fair value of investment securities available for sale and held to maturity and loans held for sale 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.

Loans, Deposits, Other Borrowed Funds and Mortgage Servicing Rights

The fair value for loans and 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. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end. Fair values for time deposits and other borrowed funds are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits of similar remaining maturities.

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.

17. PARENT COMPANY

Following are condensed financial statements for the Company.

CONDENSED BALANCE SHEET

	December 31, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 163,844	$ 88,554
Investment securities	3,009,756	5,128,485
Loans	397,499	244,261
Investment in subsidiaries	34,848,478	33,227,192
Other assets	1,080,047	1,227,863
TOTAL ASSETS	$ 39,499,624	$ 39,916,355
TOTAL LIABILITIES	$ 9,813,003	$ 11,578,007
STOCKHOLDERS' EQUITY	29,686,621	28,338,348
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 39,499,624	$ 39,916,355

CONDENSED STATEMENT OF INCOME

	Year ended December 31, 2006	Year ended December 31, 2005
INCOME		
Dividends from subsidiaries	$ 2,531,000	$ 1,217,000
Interest and dividend income	177,848	176,357
Investment securities gains, net	216,776	796,090
Other income	29,394	35,202
Total income	2,955,018	2,224,649
EXPENSES		
Interest expense	653,469	772,048
Other expenses	207,278	247,741
Total expenses	860,747	1,019,789
Income before tax benefit and equity in undistributed net income of subsidiaries	2,094,271	1,204,860
Income tax benefit	(165,837)	(25,651)
Equity in undistributed net income of subsidiaries	1,588,343	2,548,741
NET INCOME	$ 3,848,451	$ 3,779,252

17. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF CASH FLOWS

	Year ended December 31, 2006	2005
OPERATING ACTIVITIES		
Net income	$ 3,848,451	$ 3,779,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(1,588,343)	(2,548,741)
Investment securities gains, net	(216,776)	(796,090)
Other	(57,141)	(24,838)
Net cash provided by operating activities	1,986,191	409,583
INVESTING ACTIVITIES		
Investment securities:		
Proceeds from sales	4,049,889	4,338,457
Purchases	(1,963,589)	(2,808,989)
Proceeds from maturities	250,000	-
Investment in subsidiaries	-	(191,845)
Repayment of subsidiaries	-	188,000
Increase in loans, net	(153,238)	(244,261)
Net cash provided by investing activities	2,183,062	1,281,362
FINANCING ACTIVITIES		
Proceeds from other borrowings	-	6,546,228
Repayments of other borrowings	(1,563,813)	(6,223,688)
Purchase of treasury stock	(1,228,510)	(1,898,547)
Proceeds from sale of treasury stock	15,554	143,216
Exercise of stock options	210,377	705,108
Cash dividends	(1,527,571)	(1,397,675)
Net cash used for financing activities	(4,093,963)	(2,125,358)
Increase (decrease) in cash	75,290	(434,413)
CASH AT BEGINNING OF YEAR	88,554	522,967
CASH AT END OF YEAR	$ 163,844	$ 88,554

the people of Kish Bancorp, Inc.

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Richard C. Calkins, Vice Chairman
William L. Dancy, Secretary/Treasurer
Richard L. Kalin, Director
James J. Lakso, Director
Phyllis L. Palm, Director

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William L. Dancy, Member
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Ellen L. Perry, Member
Karen P. Shute, Member

Board of Directors of Kish Agency, Inc.

William P. Hayes, Chairman of the Board
Jeffrey D. Wilson, Chief Executive Officer
Holly Bowersox, Secretary, Treasurer
Lynn A. Thompson, Vice President, Commercial Lines
Richard C. Calkins, Member
William L. Dancy, Member
Richard L. Kalin, Member
Robert S. McMinn, Member

Executive Officers

William P. Hayes, Chairman, President & Chief Executive Officer
Steven T. Kramm, Executive Vice President, Operations & Information Technology Manager
Robert S. McMinn, Executive Vice President, Client Solutions/General Counsel/Sr. Trust Officer
James L. Shilling, Jr., Executive Vice President, Senior Lending Officer

Senior Officers

Samuel Aspinwall, Vice President, Investment Services/ Principal Raymond James Officer
Larry E. Burger, Vice President, Commercial Relationship Manager
Janet B. Chambers, Vice President, Marketing
Ann K. Guss, Vice President, Senior Mortgage Originator
William D. Karch, Director of Business Development
Christopher P. Kelly, Vice President, Information Technology Manager
John Q. Massie, Regional Vice President, Agricultural Manager
Mark R. Merrifield, Regional Vice President
Kathy McCool, Vice President, Human Resource Manager
Amy M. Muchler, Vice President, Branch Service Quality Manager
Scott R. Reigle, Vice President, Accounting & Controls Manager
Gerhard Royer, Vice President, Chief Credit Officer
Cheryl E. Shope, Vice President, Retail Sales Manager
Lynn A. Thompson, Vice President, Commercial Lines
Lana M. Walker, Vice President, Commercial Relationship Manager
Jeffrey D. Wilson, Chief Executive Officer, Kish Agency

Officers

Stanley N. Ayers, Assistant Vice President, Credit Administration Manager
Nancy A. Benton, Business Banking Specialist
Kathleen M. Boop, Assistant Vice President, Personal Lines Insurance Manager
Holly C. Bowersox, Agency Account/Operations Manager
David A. Coble, Assistant Vice President, Commercial Relationship Manager/Branch Manager
James L. Cordell, Assistant Vice President, Branch Manager
John P. Cunningham, II, Assistant Vice President, Branch Manager
Jo Anna Cutshall, Assistant Vice President, Financial Advisor/Trust Manager
Lucinda K. Dell, Mortgage Administrator
Allana L. Hartung, Assistant Vice President, Branch Manager
Carol K. Kennedy, Consumer Lending Officer
Marsha K. Kuhns, Assistant Vice President, Branch Support Services Manager
Beverly M. McClellan, Senior Data Analyst
Gabriel P. Millar, Director Group Tours
James H. Roth, Jr., Collections Officer
Melissa K. Royer, Assistant Vice President, Assistant Branch Operations Manager/Product Development
Frances H. Stevenson, Assistant Vice President, Private Banking Officer
N. Robert Sunday, III, Business Banker
Kayelene Sunderland, Assistant Vice President, Assistant Investment Services Manager
Ralph D. Varner, Facilities and Security Manager
Debra K. Weikel, Assistant Vice President, Mortgage Underwriting Manager

Employees

Rachelle N. Armstrong, Customer Service Teller
Jesse L. Banks, Personal Banker/Insurance Receptionist
Barry L. Bargo, Courier/Mail Clerk
Melissa D. Beale, Customer Service Teller
Brandy L. Benson, Branch Operations Specialist
Chad D. Black, Customer Service Teller
D. Lyn Bock, Personal Banker
Shana D. Booher, Customer Service Teller
Stacy A. Boozel, Loan Operations Specialist
Jean D. Branham, Loan Operations Specialist
Vicki L. Brown-Smith, Branch Operations Specialist
Kimberly A. Bubb, Communications Specialist & Event Coordinator
Jolene K. Byler, Assistant Manager, Travel Consultant
Judith A. Caldwell, Payroll & Benefits Administrator
Susan J. Carolus, Personal Lines Insurance Specialist
Brenda Collins, Credit Administration Specialist
Duane J. Coy, Commercial Lines Insurance Specialist
Lindsey M. Cramer, Customer Service Teller
Richard D. Crider, ALCO & Reporting Manager
Kati E. Deans, Customer Service Teller
Peggy J. Dearing, Credit Administration Specialist
Oksana F. DeArment, Executive Assistant
Terra L. Decker, Branch Manger/Management Training
Jannifer M. Diehl, Senior Credit Administration Specialist
Jeffrey K. Detwiler, Credit Analyst
Megan E. Dininno, Branch Operations Specialist
Heather L. Dubbs, Business Banking Specialist
Connie J. Dulis, Insurance Data Claim Processing Analyst
Beverly J. Eichhorn, Accounting Specialist/Bank Secrecy Act Officer
Wava C. Erb, Customer Service Teller
Kathy D. Fisher, Branch Support Services Specialist
Melanie S. Fisher, Customer Service Teller
Lindsey E. Gearhart, Human Resources Assistant/ Receptionist
Jodie M. Gibboney, Customer Service Teller
Karen S. Gilbert, Business Banking Specialist
Janice Y. Glick, Personal Banker
Tina L. Greenly, Customer Service Teller
Kathy E. Hagans, Customer Service Teller
Lisa J. Hamler, Customer Service Teller
Gregory T. Hayes, Project Manager
Molly B. Heckendorn, Customer Service Teller
Ashley L. Heider, Accounting Specialist
Sallie M. Hicks, Branch Operations Specialist
Susan C. Himel, Personal Banker
Donald F. Hindman, Courier/Mail Clerk
Christina A. Hinkle, Business Banking Specialist
Sandra L. Hunley, Lead Travel Agent
Marlene K. Johnson, Personal Lines, Customer Service Representative
Paula J. Kauffman, Senior Loan Operations Specialist
Brett P. Keith, Customer Service Courier
Darla S. King, Regional Customer Service Teller
Karen W. Kochenderfer, Loan Operation Specialist
Lyndsee L. Krepps, Customer Service Teller
Carolyn M. Leacy, Customer Service Teller
Lori A. Legradi, Customer Service Teller
Carmella J. Long, Personal Banker
Jeremy G. Mattern, Credit Analyst
James W. McCann, Jr., Business Development Officer
Tina K. McCurdy, Branch Operations Specialist
Kristie B. McKnight, Business Banking Specialist
Beth N. Metz, Customer Service Teller
Jamie L. Miles, Travel Office Assistant
Joanna M. Minium, Credit Administration Specialist
Jennifer A. Mitchell, Loan Operations Specialist
Amber N. Muchler, Customer Service Teller
Tina L. Nace, Senior Credit Administration Specialist
Sandra S. Noble, Customer Service Teller
Melissa A. Paladino, Branch Services Support Data Analyst
Constance F. Palm, Assistant Branch Manager
Susan K. Peachey, Branch Operation Specialist
Gina K. Perrin, Personal Banker
Tracy S. Powell, Customer Service Teller
Susan C. Rainey, Customer Service Teller
Cindy J. Robinson, Commercial Lines, Customer Service Representative
Dawn Roddy, Investment Sales Assistant
Leslie J. Sauer, Branch Support Specialist/ATM Product Manager
Tara L. Scyoc, Customer Service Teller
Melissa A. Sellers, Business Banking Specialist
Michelle D. Shaffer, Personal Banking Specialist
Corri L. Shambaugh, Branch Support Services Specialist
Chasity A. Sorensen, Customer Service Teller
Rebecca Ann Spicher, Customer Service Teller
Wendy S. Strohecker, Branch Support Services, Assistant Manager
Quinn L. Swineford, Branch Support Services Specialist
Scott A. Treaster, Information Security Administrator
Donald L. Varner, Courier/Maintenance Supervisor
Jeanne L. Wagner, Customer Service Teller
Diann L. Walker, Personal Banking Specialist
Dana E. Watson, Branch Support Services Specialist
Rebecca M. Watt, Credit Administration Specialist
Andrew T. Weikel, Network Administrator
Elaine S. Weller, Assistant Branch Manager
Sheila A. Werner, Customer Service Teller
Debra J. Wert, Electronic Banking Specialist
Michael D. Whalen, General Manager, Kish Travel
Danielle A. Yeater, Loan Operations Specialist
Roland G. Yoder, Courier/Mail Clerk
Nancy A. Zimmerman, Personal Banker

Kish Agency, Inc. Officers

Jeffrey D. Wilson, Chief Executive Officer
Lynn A. Thompson, Vice President, Commercial Lines
Kathleen M. Boop, Assistant Vice President, Personal Lines Sales Manager
Holly Bowersox, Operations Manager

Employees

Susan J. Carolus, Insurance Specialist, Personal Lines
Duane J. Coy, Insurance Specialist, Commercial Lines
Connie J. Dulis, Insurance Date & Claims Processing Specialist
Marlene K. Johnson, Personal Lines, Customer Service Representative
Cindy J. Robinson, Commercial Lines, Customer Service Representative

Kish Travel Services, Inc. Employees

Jolene K. Byler, Assistant Manager, Travel Consultant
Sandra L. Hunley, Lead Travel Agent
Jamie L. Miles, Travel Office Assistant
Gabriel P. Millar, Director of Group Tours
D. Michael Whalen, General Manager

KISH BANCORP
expect more

4255 East Main Street, Belleville, Pennsylvania 17004 • Tel (717) 935-2191 • Fax (717) 935-5511 • www.kishbank.com