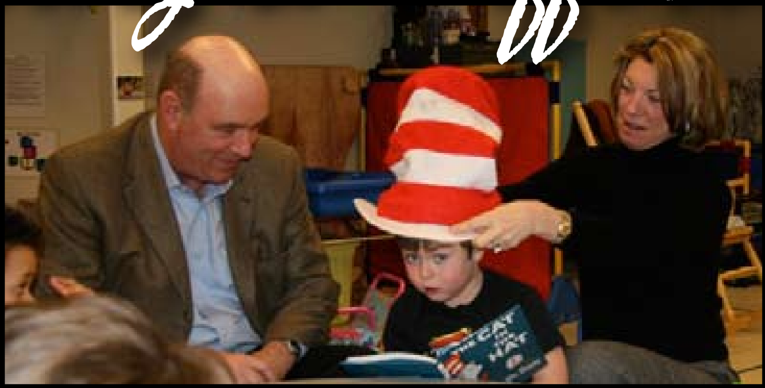
2008
ANNUAL
REPORT

Making a Difference



KISH BANCORP
expect more

Chairman's Letter to the

To Our Shareholders:

The 2008 Annual Report to the Shareholders of Kish Bancorp comes at a tumultuous time in the history of the nation and the banking system. During the time frame covered by this Report, we have witnessed regional real estate markets crumble, major Wall Street financial firms disappear, stock markets fall precipitously, global financial markets collapse and the world's largest banks teeter on the brink of insolvency while more than 50 U. S. banks have been closed by the FDIC. The speed and intensity of the collapse has been unprecedented, precipitated by types of securities that were unknown just ten years ago. Millions of jobs have been lost. The U.S. economy is in a deep recession. It has been an unsettling time to be an investor and a difficult time to be in banking.

Throughout the past year, and especially as the chaos in financial markets and the pace of economic decline accelerated in late 2008, we encouraged all Kish team members to maintain a sense of perspective during these challenging times. We reminded them that throughout our 109-year history, Kish Bank has endured a number of economic contractions and real estate bubbles. We noted that severe recessions have always been followed by periods of exceptional growth for Kish Bank. In particular, we have reminded the team of the significant opportunities for building new relationships that invariably have been created by our competitors' sudden retreat from their focus on serving local communities. We also emphasized the qualities that differentiate Kish Bank from our competitors in both good and difficult economic times.

The theme of the 2008 Annual Report, *Making a Difference*, highlights the involvement of Kish Bank and our employees in our local communities. It emphasizes the perspective that a community bank and its communities are truly inseparable. At no time is that more evident or more important than it is now. Community support and volunteerism are core values of this organization. It is more than a way of doing business; it is a way of seeing the world. It is why most of us joined Kish Bank or its affiliates. I believe it is a reason why many of you are shareholders as well. You recognize that doing well for our communities is the means

Contents

Front Cover

Kish Employees from Left to Right: Brett Keith, Christina Hinkle and Lara Hoffman at the 2009 WPSU Telethon; Bill and Connie Hayes with children at Easter Seals Central Pennsylvania; Bob McMinn at a Habitat for Humanity site; Peter Ort explaining where money comes from to elementary school students; and Heather Dubbs, Susan Rainey, Gina Perrin, Christina Hinkle, Elaine Weller, Stacey Wilson, Cheryl Shope, Nancy Zimmerman and Larry Burger at the Huntingdon PRIDE Telethon.

Shareholders

by which we do well for our shareholders. There is a powerful alignment between serving our communities and achieving our business objectives.

As you review our results and comments on Kish's performance for 2008, I hope you will see our community involvement behind our stable earnings base, behind our loan and deposit growth, behind our strong credit quality, and behind the geographic expansion of the Kish franchise. Please understand that for every one photo of a Kish volunteer in action, there are ten volunteers engaged in community organizations or supporting worthy community causes who are not featured. And, behind every volunteer, there were financial contributions by Kish Bank totaling thousands of dollars to hundreds of community organizations in 2008. All of this was made possible by a focus on serving our communities that is unwavering despite fluctuations in the economy or the priorities of our competitors.

Not long ago, Ben Bernanke, Chairman of the Federal Reserve, was interviewed on *60 Minutes*. He spoke of his confidence in the network of almost 8,000 community banks that make up the fabric of the nation's banking system. He expressed his belief that it would be community banks that would continue to lend and reinvest in their local communities, leading the way to recovery from the current deep recession. We share his confidence.

Because of that confidence and the confidence of investors in our communities, Kish Bancorp elected not to participate in the Treasury's Capital Purchase Program, and, in early 2009, was able to raise the capital necessary to support our significant future growth projections through private local investors. This capital-raising effort was accomplished through the issuance of subordinated debt in a manner that will sustain growth in earnings per share for Kish Bancorp's existing shareholders, and is supportive of our longer-term objectives of dividend growth and superior total shareholder returns.

Because of our confidence in our business model, we are proceeding with opening a Financial Center in State College, the second of two new offices in Centre County inside of five months. Because of our confidence in our capacity to perform and grow in even the most challenging environment, we will seize the opportunity created by our competitors' cutbacks to selectively add key members to our team. We know it is our staff of professionals who will enable us to grow revenues across all of our business lines while effectively managing the risks that accompany continued expansion.

We recognize that the past 18 months have been a difficult and unsettling time for our shareholders. Declining stock valuations and the deteriorating financial performance of our regional counterparts have created uncertainty among investors. During these difficult times, we continue to focus on our long term mission:

To create superior long-term shareholder returns through an unwavering focus on fulfilling our clients' financial needs.

We believe that over time this focus will support a sustainable competitive advantage for the Corporation. We thank you for your confidence and loyalty, and, with your continued support, we look forward to a bright future for Kish Bancorp, our investors and our communities.

Sincerely,

William P. Hayes

William P. Hayes
Chairman, President and Chief Executive Officer

Kish and the Community

Kish Employees from Left to Right: Kimberly Bubb, Stephanie Strickler, Oksana DeArment, Wade Curry, Jeremy Mattern and Maxi Curry at a volunteer event for YBMC.

Making a Difference in our Communities

Kish is deeply committed as a company to serving our communities. In keeping with this commitment, our offices collaborate with local organizations to direct our volunteer resources and financial support where the impact will be greatest.

Our core values extend to our Community Volunteer Policy. The policy encourages all Kish employees to volunteer up to 24 business hours throughout the calendar year. Both inside and outside of business hours, our employees volunteer for many different community and charitable organizations throughout Centre, Huntingdon and Mifflin Counties including: Habitat for Humanity, Relay for Life, Rotary International, Boy Scouts, Centre Volunteers in Medicine, ClearWater Conservancy, Trout Unlimited, Huntingdon County Business and Industry, PRIDE, Toys for Tots, Juniata College, YMCAs, Chamber of Business & Industry of Centre County, The Palmer Museum of Art, 4-H, The United Way, Easter Seals, Junior Achievement, Lewistown Hospital, YBMC, Mifflin County Industrial Development Corporation, the Second Mile and Fire and Ambulance Companies across all three counties.

Kish Bank recognizes that its future is tied to helping customers achieve their goals by delivering the most responsive financial services available. Kish also recognizes the value in extending our customer relationships beyond the banking realm.

Working Together

Kish Bank has generously supported the Friends of the Palmer Museum of Art by sponsoring receptions and donating significant items to the annual gala and auction, the Friends' major fundraiser. Kish Travel has also partnered with The Friends of the Palmer to organize a trip touring museums in Virginia and is planning to do more.

Jan Muhlert
Palmer Museum of Art

In a day and age when very few banks are truly local, it is great to have the support of a bank like Kish. We have Kish employees who participate in Huntingdon County Business and Industry committees as well as hold officer positions. It is also encouraging and helpful for our local economy that Kish continues to lend to the businesses of Huntingdon County.

Steve Sliver
Huntingdon County Business & Industry

Kish Bank volunteers have provided uncommon leadership and commitment that will make it possible for Easter Seals to continue providing life changing programs and services during these challenging times. In addition, their efforts have helped to position our organization for growth and greater service to our Central Pennsylvania community in the months and years to come.

David Bateman
Easter Seals Central Pennsylvania

Financial Highlights

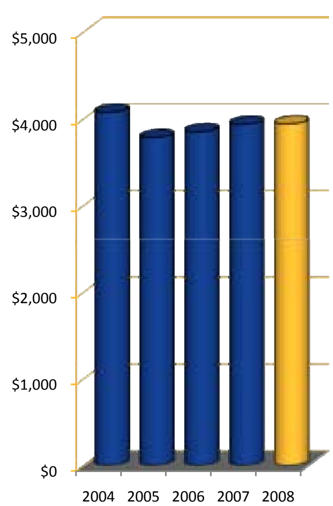
Net income for the Corporation in 2008 of $3,937,791 reflects little change from $3,933,582 the previous year. Earnings per share rose to $7.47 per share, a 1.4% increase compared to $7.37 per share the prior year. The increase in per share income is attributable to decreased shares outstanding after share repurchases by the Corporation during the year. Net interest income after provision for loan losses for 2008 was $13,838,700, a 16% increase compared to $11,929,277 in 2007. Meaningful growth in loans and deposits combined with a decline in the cost of funds resulted in this significant increase in core earnings.

Non-interest income declined by 14.4% to $3,798,250 compared to $4,439,122 the prior year. This reduction is attributable to losses in trading and investing activities of $232,197 compared to gains in these categories in 2007 totaling $165,055. Also contributing to this decline in non-interest income was a reduction in Kish Insurance revenues, resulting from industry-wide price reductions in the property and casualty insurance markets. Kish Travel also reported significantly lower revenues in 2008 compared to 2007 as consumer purchasing trends reflected the slowing economy.

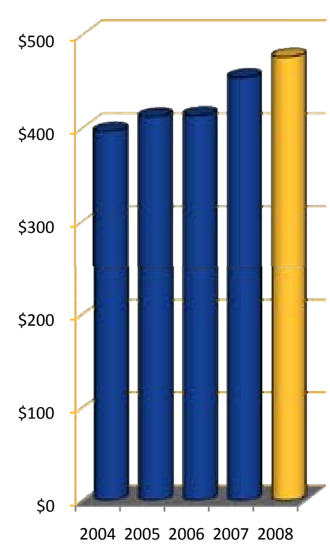
Total non-interest expense increased $1,277,244 to $12,819,469 compared to $11,542,225, an increase of 11.1%. This reflects the Corporation's investment in personnel, facilities, and infrastructure associated with the growth of the franchise. In addition to the cost of increased staffing to support expansion of the branch network in Centre County, expenses associated with medical coverage and other employee benefits increased. A change in our accounting for accumulated vacation and sick leave expenses resulted in the requirement that we recognize and expense for future contingent payments of such benefits.

Total loans outstanding grew by $28.0 million, up 9.1% to $336.7 million at the end of 2008. Deposits grew by $21.0 million during the same period, increasing by 6.3% to $352.7 million. Loan growth in excess of deposit growth was funded by a reduction in investment securities, primarily from the trading account. Reductions in investments also served to increase cash in order to position the Bank for any fluctuation in liquidity needs in light of the volatility which prevailed in financial markets, particularly during the 4th quarter of 2008.

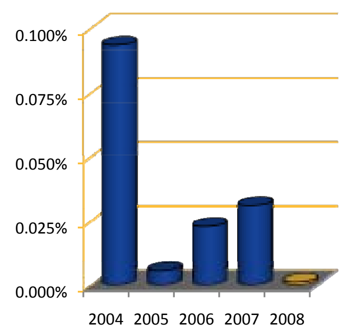
Net Income



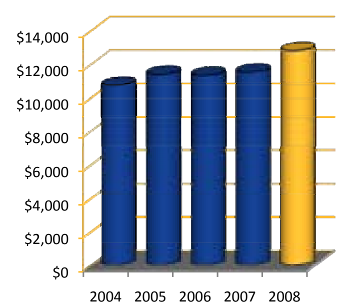
Total Assets (in millions)



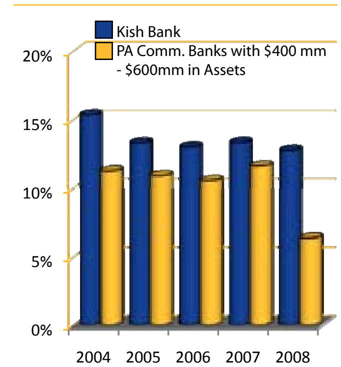
Net Loan Losses as a Percent of Net Assets



Non Interest Expense



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



Five-Year Summary

FOR THE YEAR	2008	2007	2006	2005	2004
Net Income	$3,937,791	$3,933,582	$3,848,451	$3,779,252	$4,073,977
Net Income Before Taxes	4,817,481	4,826,174	4,743,720	4,484,562	4,988,427
Total Dividends Declared*	1,713,474	1,629,120	1,527,572	1,397,675	964,680
AT YEAR END (In $000s)					
Total Assets	$476,263	$454,092	$413,429	$411,964	$396,456
Total Loans (Net)	333,434	305,729	287,622	267,477	229,062
Total Deposits	352,729	331,688	319,352	300,591	281,793
Stockholders' Equity	31,302	30,323	29,687	28,338	28,663
Loan Loss Reserve	3,305	3,001	2,963	2,708	2,347
Net Loan Losses (Recoveries)	(5)	140	94	23	371
RATIO ANALYSIS					
Return on Average Assets	0.84%	0.92%	0.93%	0.95%	1.09%
Return on Average Equity	12.75%	13.32%	12.99%	13.29%	15.33%
Dividend Declared/Net Income*	43.51%	41.42%	39.69%	36.98%	23.68%
Loan/Deposits	94.53%	92.17%	90.06%	88.98%	81.29%
Primary Capital/Total Assets	7.27%	7.34%	7.90%	7.54%	7.82%
Net Loan Losses to Total Loans (Net)	0.00%	0.05%	0.03%	0.01%	0.16%
PER SHARE DATA					
Basic Earnings	$7.47	$7.37	$6.94	$6.69	$7.16
Fully Diluted Earnings	7.47	7.35	6.90	6.63	7.08
Dividends Paid*	3.24	3.03	2.75	2.47	2.24
Equity (Book Value)	59.04	57.50	54.03	50.61	50.36
Equity Plus Loan Loss Reserve	65.27	63.19	59.43	55.44	54.48
Average Shares Outstanding	527,044	534,916	554,671	564,733	569,322

* 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.

KISH BANCORP
expect more

Kish Bancorp, Inc.
Consolidated Audited Financial Statements
December 31, 2008

Page Number

Notice of Annual Meeting

The 2009 Annual Meeting of the Shareholders of Kish Bancorp, Inc., will be held Tuesday, May 26, 2009, at 5:30 p.m. at the Kishacoquillas Valley National Bank, 4225 East Main Street, Belleville, Pennsylvania.

Financial Highlights

Market and Dividend Information for 2008

In 2008, four quarterly dividends totaling $3.24 were paid. $0.81 per share was paid on January 31, April 30, July 31, and October 31. These dividends were paid to shareholders of record on January 1, April 1, July 1, and October 1.

Stock in Kish Bancorp, Inc., is not actively traded on a national securities exchange. During 2008, trades occurred in the local over-the-counter market. To the extent of management's knowledge, sale prices ranged from $77.00 to $55.00 per share. At year-end, a bid price of $55.00 per share was available.

On December 31, 2008, there were 412 shareholders of record.

The following firms are market makers in the Corporation's stock:

> Boenning & Scattergood, Inc., Four Tower Bridge, 200 Bar Harbor Drive, Suite 300, West Conshohocken, PA 19428 610-862-5368
>
> Stifel Nicolaus & Company, Incorporated, 655 Metro Place South, Suite 200, Dublin, OH 43017 614-789-9354

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, 2008 and 2007, 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2008, the Company adopted Emerging Issues Task Force No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. Also, as discussed in Note 3 to the consolidated financial statements, effective January 1, 2007, the Company adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Lastly, as discussed in Note 16 to the consolidated financial statements, effective January 1, 2007, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

S.R. Snodgrass, A.C.

Wexford, PA
March 24, 2009

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 14,086,275	$ 7,988,058
Interest-bearing deposits with other institutions	535,142	441,409
Cash and cash equivalents	14,621,417	8,429,467
Certificates of deposit in other financial institutions	4,946,828	6,297,009
Trading securities	5,356,690	18,420,971
Investment securities available for sale	82,948,641	85,084,823
Investment securities held to maturity (fair value of $249,500)	-	250,000
Loans held for sale	399,318	398,000
Loans	336,738,338	308,729,633
Less allowance for loan losses	3,304,753	3,000,861
Net loans	333,433,585	305,728,772
Premises and equipment	10,299,828	8,329,329
Goodwill	1,712,078	1,712,078
Regulatory stock	4,144,300	3,741,100
Bank-owned life insurance	10,867,431	9,082,591
Accrued interest and other assets	7,532,949	6,617,582
TOTAL ASSETS	$ 476,263,065	$ 454,091,722
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 43,103,632	$ 38,425,189
Interest-bearing demand	13,030,766	8,327,290
Savings	27,038,373	23,615,231
Money market	98,275,535	91,822,856
Time	171,280,637	169,497,292
Total deposits	352,728,943	331,687,858
Short-term borrowings	5,954,014	22,442,247
Other borrowings	81,415,908	65,623,879
Accrued interest and other liabilities	4,862,642	4,014,431
TOTAL LIABILITIES	444,961,507	423,768,415
STOCKHOLDERS' EQUITY		
Preferred stock, $.50 par value; 500,000 shares authorized, no shares issued and outstanding	$ -	$ -
Common stock, $.50 par value; 2,000,000 shares authorized, 610,000 shares issued	305,000	305,000
Additional paid-in capital	803,034	855,213
Retained earnings	38,475,054	36,739,324
Accumulated other comprehensive income (loss)	(860,927)	50,052
Unearned restricted stock (2,455 and 1,292 shares)	(183,535)	(110,991)
Treasury stock, at cost (80,171 and 82,671 shares)	(7,237,068)	(7,515,291)
TOTAL STOCKHOLDERS' EQUITY	31,301,558	30,323,307
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 476,263,065	$ 454,091,722

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2008	2007
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 20,705,165	$ 20,742,547
Exempt from federal income tax	865,753	695,902
Interest and dividends on investment securities:		
Taxable	2,757,443	2,518,723
Exempt from federal income tax	1,461,085	1,502,153
Interest-bearing deposits with other institutions	468,624	154,074
Other dividend income	231,690	329,295
Total interest and dividend income	26,489,760	25,942,694
INTEREST EXPENSE		
Deposits	8,163,079	10,375,121
Short-term borrowings	245,600	548,969
Other borrowings	3,943,381	2,911,327
Total interest expense	12,352,060	13,835,417
NET INTEREST INCOME	14,137,700	12,107,277
Provision for loan losses	299,000	178,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,838,700	11,929,277
NONINTEREST INCOME		
Service fees on deposit accounts	1,382,764	1,350,040
Trading securities gains (losses), net	(1,364)	107,978
Investment securities gains (losses), net	(230,833)	57,077
Gain on sale of loans, net	459,918	440,296
Earnings on bank owned life insurance	340,301	331,248
Insurance commissions	789,246	805,773
Travel agency commissions	237,002	286,586
Other	821,216	1,060,124
Total noninterest income	3,798,250	4,439,122
NONINTEREST EXPENSE		
Salaries and employee benefits	7,348,084	6,510,586
Occupancy and equipment	1,450,736	1,337,390
Data processing	1,225,954	1,160,384
Professional fees	165,783	131,450
Advertising	248,462	209,991
Other	2,380,450	2,192,424
Total noninterest expense	12,819,469	11,542,225
Income before income taxes	4,817,481	4,826,174
Income taxes	879,690	892,592
NET INCOME	$ 3,937,791	$ 3,933,582
EARNINGS PER SHARE		
Basic	$ 7.47	$ 7.37
Diluted	7.47	7.35

See accompanying notes to the consolidated financial statements.

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Restricted Stock	Treasury Stock	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 2006	$ 305,000	$ 972,940	$ 35,026,141	$ (931,052)	$ -	$ (5,686,408)	$ 29,686,621	
Net income			3,933,582				3,933,582	$ 3,933,582
Other comprehensive income:								
Unrealized gain on available-for-sale securities, net of reclassification adjustment, net of taxes of $505,417				981,104			981,104	981,104
Comprehensive income								$ 4,914,686
Cumulative effect of adoption of Statement of Financial Accounting Standards No. 159, net of tax benefit of $304,598			(591,279)				(591,279)	
Stock option compensation expense		2,094					2,094	
Purchase of shares by RSP		(8,196)			(158,291)	166,487	-	
Amortization of unearned RSP shares					47,300		47,300	
Cash dividends ($3.03 per share)			(1,629,120)				(1,629,120)	
Exercise of stock options (2,875 shares)		(105,211)				262,418	157,207	
Purchase of treasury stock (27,645 shares)						(2,335,594)	(2,335,594)	
Sale of treasury stock (2,693 shares)		(6,414)				77,806	71,392	
Balance, December 31, 2007	305,000	855,213	36,739,324	50,052	(110,991)	(7,515,291)	30,323,307	
Net income			3,937,791				3,937,791	$ 3,937,791
Other comprehensive income (loss)								
Unrealized loss on available-for-sale securities, net of reclassification adjustment, net of tax benefit of $469,292				(910,979)			(910,979)	(910,979)
Comprehensive income								$ 3,026,812
Cumulative effect of change in accounting for split-dollar life insurance arrangements			(488,587)				(488,587)	
Stock option compensation expense		14,526					14,526	
Purchase of shares by RSP		(29,180)			(154,870)	184,050	-	
Forfeiture of shares by RSP					10,492	(10,492)	-	
Amortization of unearned RSP shares					71,834		71,834	
Cash dividends ($3.24 per share)			(1,713,474)				(1,713,474)	
Exercise of stock options (175 shares)		(4,188)				15,750	11,562	
Purchase of treasury stock (1,246 shares)						(90,464)	(90,464)	
Sale of treasury stock (1,990 shares)		(33,337)				179,379	146,042	
Balance, December 31, 2008	$ 305,000	$ 803,034	$ 38,475,054	$ (860,927)	$ (183,535)	$ (7,237,068)	$ 31,301,558	

	2008	2007
Components of other comprehensive income (loss)		
Change in net unrealized gain (loss) on investments available for sale	$ (1,063,329)	1,018,775
Realized gains (losses) included in net income net of tax of ($78,483) and $19,406	152,350	(37,671)
Total	$ (910,979)	981,104

See accompanying notes to consolidated financial statements

Kish Bancorp, Inc.
Consolidated Statement of Cash Flows

	Year Ended December 31, 2008	2007
OPERATING ACTIVITIES		
Net income	$ 3,937,791	$ 3,933,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	299,000	178,000
Investment securities losses (gains), net	230,833	(57,077)
Net change in investment securities held for trading	13,064,281	4,539,833
Proceeds from sale of loans held for sale	19,042,600	11,540,131
Origination of loans held for sale	(18,651,987)	(11,316,785)
Gain on sales of loans, net	(459,918)	(440,296)
Depreciation, amortization and accretion	902,130	808,538
Deferred income taxes	(144,858)	(111,701)
Decrease (increase) in accrued interest receivable	340,313	(518,171)
Increase (decrease) in accrued interest payable	(383,343)	210,211
Earnings on bank-owned life insurance	(338,838)	(331,248)
Other, net	245,795	(509,370)
Net cash provided by operating activities	18,083,799	7,925,647
INVESTING ACTIVITIES		
Maturities of certificates of deposit	2,977,441	2,000,000
Purchase of certificates of deposit	(1,627,260)	(3,198,979)
Investment securities available for sale:		
Proceeds from sale of investments	21,073,175	1,830,284
Proceeds from repayments and maturities	14,146,530	2,526,241
Purchases	(35,022,292)	(28,021,683)
Investment securities held to maturity:		
Proceeds from repayments and maturities	250,000	-
Increase in loans, net	(28,077,813)	(18,284,810)
Purchase of regulatory stock	(1,039,900)	(2,773,600)
Redemption of regulatory stock	636,700	2,222,100
Purchase of bank-owned life insurance	(1,430,000)	-
Purchase of premises and equipment	(2,544,964)	(323,474)
Sale of premises and equipment	-	34,189
Net cash used for investing activities	(30,658,383)	(43,989,732)
FINANCING ACTIVITIES		
Increase in deposits, net	21,041,085	12,335,399
Increase (decrease) in short-term borrowings, net	(16,488,233)	15,687,230
Proceeds from other borrowings	24,739,526	23,727,700
Repayments of other borrowings	(8,947,497)	(11,782,603)
Purchases of treasury stock	(90,464)	(2,335,594)
Proceeds from sale of treasury stock	146,667	71,392
Exercise of stock options	10,937	157,207
Cash dividends	(1,713,474)	(1,629,120)
Net cash provided by financing activities	18,698,547	36,231,611
Increase in cash and cash equivalents	6,123,963	167,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,429,467	8,261,941
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,553,430	$ 8,429,467
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 12,735,403	$ 13,625,206
Income taxes	910,000	840,000

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 subsidiaries, Kishacoquillas Valley National Bank (the "Bank"), Kish Travel Services, Inc., and the Bank's 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 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 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, available for sale, or trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. 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. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings. Realized securities gains and losses are computed using the specific identification method. 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.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and management's intent and ability to hold the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

security for a period of time sufficient to allow for a recovery in market value. Among the factors that are considered in determining management's intent and ability is a review of the Company's capital adequacy, interest rate risk position, and liquidity. The assessment of a security's ability to recover any decline in market value, the ability of the issuer to meet contractual obligations, and management's intent and ability requires considerable judgment. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

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 that 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 2008 and 2007.

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.

Endorsement Split-Dollar Life Insurance Arrangements

On January 1, 2008, the Company changed its accounting policy and recognized a cumulative-effect adjustment to retained earnings totaling $488,587 related to accounting for certain endorsement split-dollar life insurance arrangements in connection with the adoption of Emerging Issues Task Force Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.*

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

During the year ended December 31, 2005, the Company accelerated their vesting and all shares outstanding became fully vested. Options granted subsequent to December 31, 2005, vest at a rate of one third per year for three years. As of December 31, 2008 and 2007, the Company recorded compensation expense of $14,526 and $2,094 related to share-based compensation awards. At December 31, 2008, there was approximately $16,506 in unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next two years.

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, $625 and $36,019 excess tax benefits have been classified as a financing cash inflow for the years ended December 31, 2008 and 2007, in the Consolidated Statement of Cash Flows.

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

Grant Year	Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility	Expected Life (in years)
2008	4.25 %	3.10 %	8.18 %	9.08
2007	3.09	4.80	10.40	9.11

The weighted-average fair value of each stock option granted for 2008 was $2.90. The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007, was $637 and $10,465, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. 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.

	2008	2007
Weighted-average common shares outstanding	610,000	610,000
Average treasury stock shares	(80,912)	(75,610)
Average unearned nonvested RSP shares	(2,044)	(938)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	527,044	533,452
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	-	1,464
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	527,044	534,916

Options to purchase 53,860 and 44,919 shares of common stock at a price of $76.00 to $96.75, as of December 31, 2008 and 2007, and 2,454 and 1,259 shares of restricted stock ranging in price from $73.00 to $93.00, were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

3. TRADING SECURITIES

Effective January 1, 2007, the Company adopted Statement of Financial Accounting Standards ("FAS") 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. FAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The impact of adopting FAS No. 159 reduced the beginning balance of retained earnings as of January 1, 2007 by $591,279, net of tax. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur.

Year-end trading securities, at estimated fair value, were as follows:

	2008	2007
Held for Trading		
U.S. government agency securities	$ 3,030,620	$ 16,996,710
Corporate securities	2,326,070	1,424,261
Total	$ 5,356,690	$ 18,420,971

The net gain (loss) on trading securities, which includes amounts realized from sale transactions and mark to market adjustments, totaled $(1,364) and $107,978 as of December 31, 2008 and 2007, respectively.

4. INVESTMENT SECURITIES

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

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agency securities	$ 6,712,423	$ 243,988	$ -	$ 6,956,411
Obligations of state and political subdivisions	44,842,589	645,388	(952,566)	44,535,411
Corporate securities	13,939,716	128,571	(1,102,847)	12,965,440
Mortgage-backed securities	16,143,579	399,537	(1,337)	16,541,779
Total debt securities	81,638,307	1,417,484	(2,056,750)	80,999,041
Equity securities	2,603,601	131,563	(785,564)	1,949,600
Total	$ 84,241,908	$ 1,549,047	$ (2,842,314)	$ 82,948,641

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agency securities	$ 6,444,199	$ 50,318	$ (7,052)	$ 6,487,465
Obligations of state and political subdivisions	42,912,251	308,918	(219,208)	43,001,961
Corporate securities	16,989,386	57,405	(369,440)	16,677,351
Mortgage-backed securities	15,830,406	218,075	(5,544)	16,042,937
Total debt securities	82,176,242	634,716	(601,244)	82,209,714
Equity securities	2,832,524	325,572	(282,987)	2,875,109
Total	$ 85,008,766	$ 960,288	$ (884,231)	$ 85,084,823

4. INVESTMENT SECURITIES (Continued)

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to Maturity				
Corporate securities	$ 250,000	$ -	$ (500)	$ 249,500

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, 2008 and 2007.

	2008					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of states and political subdivisions	$ 24,425,221	$ (952,566)	$ -	$ -	$ 24,425,221	$ (952,566)
Corporate securities	115,413	(106,292)	4,908,815	(996,555)	5,024,228	(1,102,847)
Mortgage-backed securities	2,353,950	(1,337)	-	-	2,353,950	(1,337)
Total debt securities	26,894,584	(1,060,195)	4,908,815	(996,555)	31,803,399	(2,056,750)
Equity securities	748,922	(375,771)	551,604	(409,793)	1,300,526	(785,564)
Total	$ 27,643,506	$ (1,435,966)	$ 5,460,419	$ (1,406,348)	$ 33,103,925	$ (2,842,314)

	2007					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 2,242,970	$ (7,052)	$ 2,242,970	$ (7,052)
Obligations of states and political subdivisions	468,906	(3,337)	19,161,455	(215,871)	19,630,361	(219,208)
Corporate securities	2,512,850	(104,249)	10,435,946	(265,691)	12,948,796	(369,940)
Mortgage-backed securities	-	-	985,064	(5,544)	985,064	(5,544)
Total debt securities	2,981,756	(107,586)	32,825,435	(494,158)	35,807,191	(601,744)
Equity securities	743,075	(138,951)	483,258	(144,036)	1,226,333	(282,987)
Total	$ 3,724,831	$ (246,537)	$ 33,308,693	$ (638,194)	$ 37,033,524	$ (884,731)

There are 128 positions that are temporarily impaired at December 31, 2008. The Company reviews its position quarterly and has asserted that at December 31, 2008 and 2007, 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 the unrealized losses discussed above are not other than temporary but are 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. Current accounting standards require the Company to write down the value of other-than-temporarily impaired securities to their fair value. The Company recorded $519,499 and $94,389 of net impairment losses as of December 31, 2008 and 2007, respectively.

4. INVESTMENT SECURITIES (Continued)

The amortized cost and estimated market values of debt securities at December 31, 2008, 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	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,948,958	$ 2,955,372
Due after one year through five years	15,559,773	15,704,177
Due after five years through ten years	31,112,216	30,193,484
Due after ten years	32,017,360	32,146,008
Total	$ 81,638,307	$ 80,999,041

Investment securities with a carrying value of $47,796,306 and $51,948,809 at December 31, 2008 and 2007, respectively, were pledged to secure deposits and other purposes as required by law.

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

	2008	2007
Proceeds from sales	$ 21,073,175	$ 1,830,284
Gross gains	457,575	209,176
Gross losses	(168,909)	(57,710)
Other-than-temporary loss	(519,499)	(94,389)

5. LOANS

Major classifications of loans are summarized as follows:

	2008	2007
Commercial and agricultural	$ 76,559,263	$ 69,590,633
Real estate mortgages:		
Residential	128,281,540	117,763,660
Construction	16,140,903	17,416,069
Commercial	107,264,675	95,831,584
Installment	6,764,421	6,516,975
Lines of credit	1,727,536	1,610,712
	336,738,338	308,729,633
Less allowance for loan losses	3,304,753	3,000,861
Net loans	$ 333,433,585	$ 305,728,772

Mortgage loans serviced by the Company for others amounted to $62,354,738 and $67,939,878 at December 31, 2008 and 2007, respectively.

5. LOANS (Continued)

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

	2008	2007
Balance, January 1	$ 3,000,861	$ 2,962,724
Add:		
Provisions charged to operations	299,000	178,000
Recoveries	49,217	61,692
Less loans charged off	(44,325)	(201,555)
Balance, December 31	$ 3,304,753	$ 3,000,861

The Company had nonaccrual loans, inclusive of impaired loans, of $1,840,273 and $2,359,773 at December 31, 2008 and 2007, respectively. Interest income on loans would have increased by approximately $98,610 and $90,060 during 2008 and 2007, respectively, if these loans had performed in accordance with their original terms.

	2008	2007
Impaired loans		
With a related allowance for loan losses	$ 2,511,121	$ 2,185,684
Without a related allowance for loan losses	64,913	96,336
Related allowance for loan losses	699,877	779,000
Average recorded balance of impaired loans	2,145,894	2,646,006
Interest income recognized on impaired loans	60,186	151,546

The Company grants residential, commercial, and consumer loans to customers throughout its trade area that is concentrated in central Pennsylvania. Such loans are subject to, at origination, credit risk assessment by management following the Company's lending policy. Although the Company has a diversified loan portfolio at December 31, 2008 and 2007, 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, 2008, is as follows:

2007	Additions	Amounts Collected	2008
$ 4,833,818	$ 4,191,061	$ 4,021,913	$ 5,002,966

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2008	2007
Land and land improvements	$ 793,458	$ 793,458
Building and leasehold improvements	11,258,730	8,948,859
Furniture, fixtures, and equipment	3,467,404	3,424,305
	15,519,592	13,166,622
Less accumulated depreciation	5,219,764	4,837,293
Total	$ 10,299,828	$ 8,329,329

Depreciation and amortization charged to operations was $574,465 in 2008 and $573,429 in 2007.

7. GOODWILL

As of December 31, 2008 and 2007, goodwill had a gross carrying amount of $2,326,091 and an accumulated amortization amount of $614,013, resulting in a net carrying amount of $1,712,078 for each year.

The gross carrying amount of goodwill was tested for impairment in the third quarter, after the annual forecasting process. 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
2009	$ 122,351,022
2010	21,431,282
2011	9,261,798
2012	10,165,642
2013	3,933,977
Thereafter	4,136,916
	$ 171,280,637

The aggregate of all time deposit accounts of $100,000 or more amounted to $51,745,058 and $54,689,180 at December 31, 2008 and 2007, respectively.

9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, Federal Funds Sold, repurchase agreements with customers, and a $7,500,000 unsecured line of credit with a commercial bank. The line of credit agreement contains various covenants requiring the Company to maintain certain levels of financial performance. At December 31, 2008 and 2007, the Company was in compliance with all of its covenants. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2008	2007
Balance at year-end	$ 5,954,014	$ 22,442,247
Average balance outstanding	6,320,953	9,955,846
Maximum month-end balance	6,244,917	22,442,247
Weighted-average rate at year-end	3.60%	4.54%
Weighted-average rate during the year	3.89%	5.51%

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, 2008	At December 31, 2007
Adjustable rate	-	-	- %	- %	- %	$ -	$ 1,500,000
Convertible	07/06/10	08/22/12	5.17	4.19	6.87	15,000,000	15,000,000
Fixed rate	01/09/09	11/14/17	4.44	3.14	7.48	37,881,181	32,501,646
Fixed rate amortizing	07/21/10	06/26/18	4.05	3.43	6.53	8,332,227	1,419,733
Mid-term repos	08/03/09	01/24/11	4.14	2.78	5.12	14,016,500	9,016,500
Note payable	03/17/35	11/23/35	6.32	6.11	6.52	6,186,000	6,186,000
						$ 81,415,908	$ 65,623,879

Maturities of other borrowings at December 31, 2008, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2009	$ 8,766,500	4.51 %
2010	15,302,870	5.23
2011	13,967,425	4.19
2012	18,840,261	4.56
2013	15,449,545	3.83
2014 and after	9,089,307	5.88
	$ 81,415,908	4.63 %

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") after two years from the original date of the advance. The fixed rate amortizing borrowings require monthly payments of principal and interest.

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, 2008, the Bank's maximum borrowing capacity with the FHLB was approximately $134 million.

10. OTHER BORROWINGS (Continued)

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:

	2008	2007
Current payable	$ 1,024,548	$ 1,004,293
Deferred	(144,858)	(111,701)
Total provision	$ 879,690	$ 892,592

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:

	2008	2007
Deferred tax assets:		
Allowance for loan losses	$ 1,123,616	$ 1,020,293
Deferred compensation	255,541	325,690
Core deposit intangible assets	45,317	54,420
Alternative minimum tax carryforward	160,281	253,833
Unrealized loss on available-for-sale securities	443,508	-
Other	506,568	239,389
Deferred tax assets	2,534,831	1,893,625
Deferred tax liabilities:		
Premises and equipment	126,490	135,249
Goodwill	354,515	303,870
Deferred loan fees	159,697	169,170
Partnerships	86,037	65,610
Unrealized gain on available-for-sale securities	-	23,347
Deferred tax liabilities	726,739	697,246
Net deferred tax assets	$ 1,808,092	$ 1,196,379

11. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2008 and 2007, 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 Company's effective consolidated income tax rate is as follows:

	2008		2007	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,637,943	34.0 %	$ 1,640,899	34.0 %
Tax-exempt interest	(791,125)	(16.4)	(747,339)	(15.5)
Life insurance income	(71,605)	(1.5)	(105,219)	(2.2)
Other	104,477	2.2	104,251	2.2
Actual tax expense and effective rate	$ 879,690	18.3 %	$ 892,592	18.5 %

The Company adopted the provisions of FIN No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109*, effective January 1, 2007. FIN No. 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN No. 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. The adoption of FIN No. 48 did not have a significant impact on the Company's financial statements.

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 $196,900 and $199,070 for the years ended December 31, 2008 and 2007, respectively. The fair value of plan assets includes $587,235 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 2008 and 2007 were $751,590 and $957,912, respectively, and are reported as "other liabilities" on the Consolidated Balance Sheet. Expenses (income) related to this plan were $(54,512) and $63,380 for December 31, 2008 and 2007, respectively.

12. EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan

During 2007, the Board of Directors amended the 1988 Restricted Stock Plan (the "Plan") to vest shares evenly over six years. Employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance related requirements. Awards granted under the Plan are in the form of the Company's common stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 12,000 shares of the Company's common stock. The Plan assists the Company in attracting, retaining and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. Compensation expense recognized related to the vesting of shares was $71,834 and $47,300 for the years ended December 31, 2008 and 2007, respectively.

The following is a summary of the status of the Company's restricted stock as of December 31, 2008, and changes therein during the year then ended:

	Number of Shares of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at December 31, 2007	1,292	$ 86.10
Granted	2,045	75.73
Vested	588	80.29
Forfeited	80	87.43
Nonvested at December 31, 2008	2,669	$ 79.39

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 grant 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 subsequent to December 31, 2005, are primarily vested evenly over a three-year period from the grant date.

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

	2008	Weighted-average Exercise Price
Outstanding, January 1	49,466	$ 87.01
Granted	6,950	76.35
Exercised	(175)	62.50
Forfeited	(2,381)	73.85
Outstanding, December 31	53,860	$ 88.40
Exercisable at year-end	46,472	$ 88.40

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table summarizes the characteristics of stock options at December 31, 2008:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
01/27/00	76.00	2,947	1.08	76.00	2,947	76.00
01/11/01	79.00	3,778	2.03	79.00	3,778	79.00
01/24/02	90.00	5,530	3.06	90.00	5,530	90.00
02/21/02	91.00	8	3.14	91.00	8	91.00
02/27/03	90.00	4,359	4.16	90.00	4,359	90.00
08/01/03	90.00	1,110	4.58	90.00	1,110	90.00
09/02/03	90.00	2,222	4.67	90.00	2,222	90.00
12/29/03	91.25	3,168	5.00	91.25	3,168	91.25
03/16/04	91.25	3,700	5.21	91.25	3,700	91.25
05/26/04	94.00	734	5.40	94.00	734	94.00
06/30/04	96.75	2,618	5.50	96.75	2,618	96.75
01/05/05	93.00	8,427	6.01	93.00	8,427	93.00
02/03/05	93.00	380	6.09	93.00	380	93.00
02/09/05	93.00	26	6.11	93.00	26	93.00
02/10/05	95.00	100	6.11	95.00	100	95.00
02/24/05	96.00	42	6.15	96.00	42	96.00
03/29/05	96.00	3	6.24	96.00	3	96.00
04/26/05	96.00	441	6.32	96.00	441	96.00
07/08/05	96.00	333	6.52	96.00	333	96.00
12/08/05	95.00	1,421	6.94	95.00	1,421	95.00
12/10/05	95.25	3	6.94	95.25	3	95.25
12/16/05	95.00	150	6.96	95.00	150	95.00
12/22/05	95.00	4,440	6.98	95.00	4,440	95.00
01/25/07	88.00	545	8.07	88.00	182	88.00
02/23/07	90.00	525	8.15	90.00	350	90.00
01/31/08	76.35	6,850	9.08	76.35	-	76.35
		53,860			46,472	

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:

	2008	2007
Commitments to extend credit	$ 86,622,928	$ 61,745,048
Standby letters of credit	4,968,420	5,323,999
Total	$ 91,591,348	$ 67,069,047

13. COMMITMENTS (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

The Bank has committed to various operating leases for their branch and office facilities. Some of these leases include renewal options as well as specific provisions relating to rent increases. The minimum annual rental commitments under these leases outstanding at December 31, 2008, are as follows:

		Minimum Lease Payment
2009	$	289,424
2010		246,136
2011		223,640
2012		223,640
2013		223,640
Thereafter		4,598,240
Total	$	5,804,720

Rent expense under leases for each of the years ended December 31, 2008 and 2007, was $207,876 and $117,997, respectively.

Contingent Liabilities

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

14. REGULATORY RESTRICTIONS

Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2008 and 2007, was $1,421,000 and $1,077,000, 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.

14. REGULATORY RESTRICTIONS (Continued)

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 2009, without prior approval of the Comptroller, is approximately $3.9 million plus net profits retained in 2009 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, 2008 and 2007, 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.

	2008		2007	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 39,950,259	10.40 %	$ 37,654,044	10.41 %
For Capital Adequacy Purposes	30,730,476	8.00	28,937,988	8.00
To Be Well Capitalized	38,416,845	10.00	36,172,485	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 36,455,506	9.49 %	$ 34,459,020	9.53 %
For Capital Adequacy Purposes	15,366,738	4.00	14,468,994	4.00
To Be Well Capitalized	23,050,107	6.00	21,703,491	6.00
Tier I Capital (to Average Assets)				
Actual	$ 36,455,506	7.58 %	$ 34,459,020	7.74 %
For Capital Adequacy Purposes	19,235,026	4.00	17,805,071	4.00
To Be Well Capitalized	24,043,783	5.00	22,256,339	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.

	2008		2007	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 41,060,760	10.82 %	$ 37,998,074	10.65 %
For Capital Adequacy Purposes	30,349,036	8.00	28,540,339	8.00
To Be Well Capitalized	37,936,297	10.00	35,675,424	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 37,566,007	9.90 %	$ 34,822,213	9.76 %
For Capital Adequacy Purposes	15,174,519	4.00	14,270,170	4.00
To Be Well Capitalized	22,761,778	6.00	21,405,254	6.00
Tier I Capital (to Average Assets)				
Actual	$ 37,566,007	7.96 %	$ 34,822,213	7.90 %
For Capital Adequacy Purposes	18,885,189	4.00	17,629,440	4.00
To Be Well Capitalized	23,606,487	5.00	22,036,800	5.00

16. FAIR VALUE MEASUREMENTS

Effective January 1, 2007, the Company adopted the provisions of FAS No. 157, *Fair Value Measurements*, for financial assets and financial liabilities. FAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. The FASB issued Staff Position No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. The FASB also issued Staff Position No.157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

FAS No. 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by FAS No. 157 hierarchy are as follows:

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

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

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

16. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the assets reported on the balance sheet at their fair value as of December 31, 2008, by level within the fair value hierarchy. As required by FAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2008			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale	$ 1,949,600	$ 77,366,122	$ 3,632,919	$ 82,948,641
Trading securities	-	4,937,139	419,551	5,356,690
Mortgage servicing rights	-	-	349,187	349,187

At December 31, 2008, the Company changed its valuation technique for certain corporate bonds. Previously, the Company relied on prices compiled by third party vendors using observable market data (Level II) to determine the values of these securities. However, FAS 157 assumes that fair values of financial assets are determined in an orderly transaction and not a forced liquidation or distressed sale at the measurement date. Based on financial market conditions at December 31, 2008, the Company concluded the fair values obtained from third-party vendors reflected forced liquidation or distressed sales for these corporate bonds. Therefore, the Company estimated fair value based on a discounted cash flow methodology using appropriately adjusted discount rates reflecting nonperformance and liquidity risks.

Financial instruments are considered Level III when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The following table presents the changes in the Level III fair-value category for the year ended December 31, 2008.

	Investment Securities Available for Sale	Trading Securities	Mortgage Servicing Rights	Total
Balance, January 1, 2008,	$ -	$ -	$ -	$ -
Total gains or losses (realized/unrealized)				
Included in earnings	(536,484)	(80,500)	(156,670)	(773,654)
Transfers in and/or out of Level III	4,169,403	500,051	505,857	5,175,311
Balance, December 31, 2008	$ 3,632,919	$ 419,551	$ 349,187	$ 4,401,657

The following table presents the assets measured on a nonrecurring basis on the consolidated statements of financial condition at their fair value as of December 31, 2008, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs and observable inputs employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input.

16. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2008			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ 1,811,244	$ -	$ 1,811,244

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,621,417	$ 14,621,417	$ 8,429,467	$ 8,429,467
Certificates of deposit	4,946,828	4,946,828	6,297,009	6,297,009
Investment securities:				
Held for trading	5,356,690	5,356,690	18,420,971	18,420,971
Available for sale	82,948,641	82,948,641	85,084,823	85,084,823
Held to maturity	-	-	250,000	249,500
Loans held for sale	399,318	399,318	398,000	398,000
Net loans	333,433,585	338,398,408	305,728,772	302,684,743
Regulatory stock	4,144,300	4,144,300	3,741,100	3,741,100
Bank-owned life insurance	10,867,431	10,867,431	9,082,591	9,082,591
Accrued interest receivable	2,335,382	2,335,382	2,675,695	2,675,695
Mortgage servicing rights	349,187	349,187	617,799	617,799
Financial liabilities:				
Deposits	$ 352,728,943	$ 355,153,158	$ 331,687,858	$ 333,587,730
Short-term borrowings	5,954,014	5,954,014	22,442,247	22,442,247
Other borrowings	81,415,908	84,679,713	65,623,879	68,026,882
Accrued interest payable	1,451,650	1,451,650	1,834,993	1,834,993

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.

17. 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.

Investment Securities (Trading, Available for Sale, and Held to Maturity), Loans Held for Sale

The fair value of investment securities 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. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Loans

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

Deposits

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

Bank-Owned Life Insurance

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

Other Borrowed Funds and Mortgage Servicing Rights

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

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 14.

18. PARENT COMPANY

Following are condensed financial statements for the Company.

CONDENSED BALANCE SHEET

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 98,873	$ 27,086
Investment securities	1,869,028	3,018,199
Investment in subsidiaries	38,648,655	36,918,736
Other assets	1,909,487	1,562,418
TOTAL ASSETS	$ 42,526,043	$ 41,526,439
Borrowings	$ 11,111,678	$ 11,127,257
OTHER LIABILITIES	$ 112,807	$ 75,875
TOTAL LIABILITIES	$ 11,224,485	$ 11,203,132
STOCKHOLDERS' EQUITY	31,301,558	30,323,307
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 42,526,043	$ 41,526,439

CONDENSED STATEMENT OF INCOME

	Year ended December 31, 2008	Year ended December 31, 2007
INCOME		
Dividends from subsidiaries	$ 1,716,000	$ 3,037,000
Interest and dividend income	131,700	162,210
Investment securities gains (losses), net	(71,208)	79,796
Other income	59,067	29,088
Total income	1,835,559	3,308,094
EXPENSES		
Interest expense	601,768	652,359
Other expenses	175,368	170,960
Total expenses	777,136	823,319
Income before tax benefit and equity in undistributed net income of subsidiaries	1,058,423	2,484,775
Income tax benefit	(242,245)	(206,241)
Equity in undistributed net income of subsidiaries	2,637,123	1,242,566
NET INCOME	$ 3,937,791	$ 3,933,582

18. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF CASH FLOWS

	Year ended December 31, 2008	2007
OPERATING ACTIVITIES		
Net income	$ 3,937,791	$ 3,933,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(2,637,123)	(1,242,566)
Investment securities gains (losses), net	71,208	(79,796)
Other	29,866	(359,291)
Net cash provided by operating activities	1,401,742	2,251,929
INVESTING ACTIVITIES		
Investment securities:		
Proceeds from sales	360,563	1,104,784
Purchases	(278,605)	(1,132,128)
Proceeds from maturities	250,000	-
Dissolution of subsidiary	-	24,772
Net cash provided by (used for) investing activities	331,958	(2,572)
FINANCING ACTIVITIES		
Proceeds from other borrowings	480,281	1,350,000
Repayments of other borrowings	(495,860)	-
Purchase of treasury stock	(90,464)	(2,335,594)
Proceeds from sale of treasury stock	146,667	71,392
Exercise of stock options	10,937	157,207
Cash dividends	(1,713,474)	(1,629,120)
Net cash used for financing activities	(1,661,913)	(2,386,115)
Increase (decrease) in cash	71,787	(136,758)
CASH AT BEGINNING OF YEAR	27,086	163,844
CASH AT END OF YEAR	$ 98,873	$ 27,086

Growing Wisely

To Serve the Region

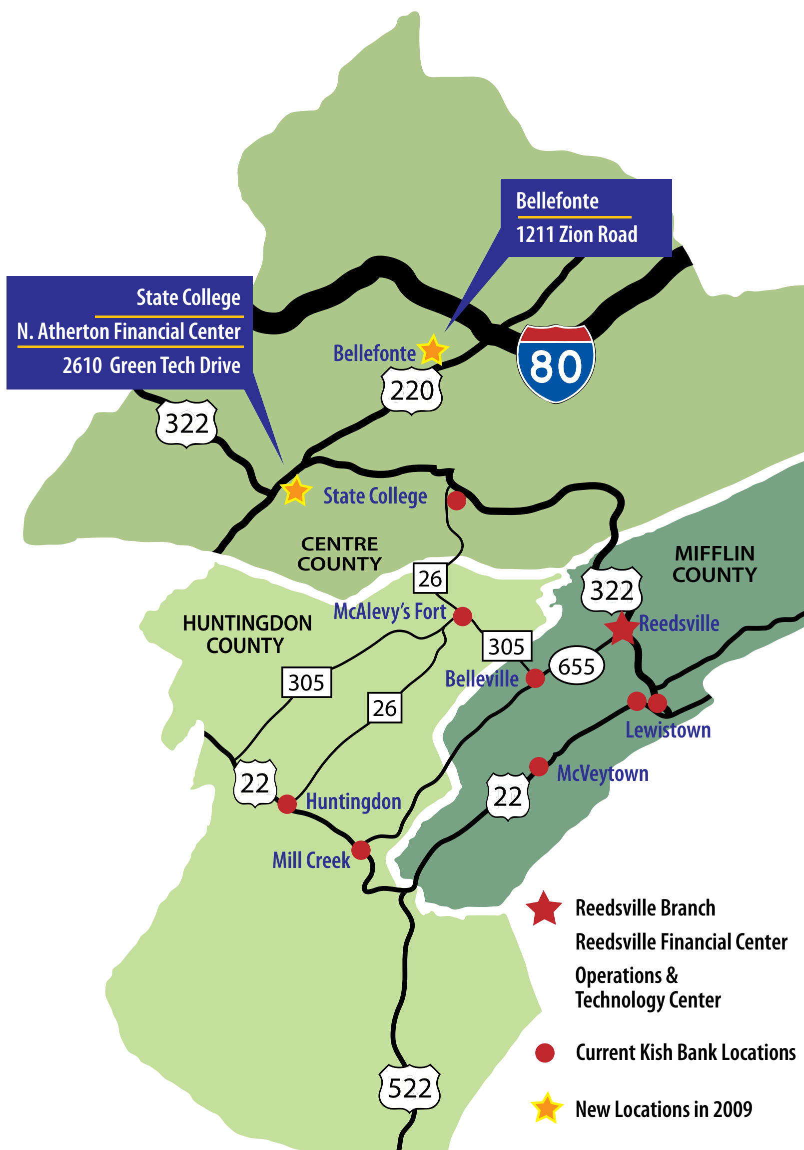
Expanding the Franchise

With two new locations in Centre County, Kish Bank is growing to better meet the needs of the Central Pennsylvania market.

Kish Bank in Bellefonte opened its doors on December 31, 2008, and Kish Bank's State College Financial Center will open in May 2009.

Kish Bank's State College Financial Center is located at the intersection of North Atherton Street and Valley Vista Drive.

The Financial Center will offer the full range of Kish Services including retail and business banking, insurance agency services, investment and financial planning services, trust and asset management services and travel services.



The People of Kish Bancorp, Inc.

Board of Directors of Kish Bancorp Inc. and Kish Bank

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

Centre County Regional Board

Randall Bachman, Member
Thomas E. Brown, Member
David Horner, Member
Richard L. Kalin, Member
William D. Karch, Member
Michael J. Krentzman, Member
Ashley H. Kranich, Member
Alison B. Kurtz, Member
Ellen L. Perry, Member
Karen P. Shute, Member

Mifflin County Regional Board

Ronald M. Cowan, Member
William L. Dancy, Member
Eric K. Fowler, Member
Nichola A. Hidlay, Member
Deborah S. Himes, Member
Robert E. Knable, Member
Harvard K. McCardle, Member
Alan J. Metzler, Member
Gary L. Oden, 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
Robert L. Orr, Jr., Member
Pamela Prosser, Member
Burgess A. Smith, Member
Delmont Sunderland, Member

Board of Directors of Kish Agency, Inc.

William P. Hayes, Chairman
Jeffrey D. Wilson, Chief Executive Officer
L**ynn A. Thompson,** Vice President, Commercial Lines
Richard C. Calkins, Member
William L. Dancy, Member
Robert S. McMinn, Member
Phyllis L. Palm, Member

Board of Directors of Kish Travel, Inc.

William P. Hayes, Chairman
Robert S. McMinn, President & Chief Executive Officer
Richard C. Calkins, Member
Phyllis L. Palm, Member

Executive Officers

William P. Hayes, Chairman, President & Chief Executive Officer
Robert S. McMinn, Executive Vice President, Chief Operating Officer & General Counsel
James L. Shilling, Jr., Executive Vice President, Market Manager, Senior Lending Officer for Mifflin County
Gerhard Royer, Vice President, Chief Credit Officer
Michael F. Allen, Executive Vice President, Market Manager, Senior Lending Officer for Centre County

Senior Officers

Ronald B. Beyer, CFA®, Vice President, Profitability Manager and Investment Portfolio Manager
Larry E. Burger, Vice President, Commercial Relationship Manager
Cynthia A. Campbell, Vice President, Residential Mortgage Sales
Michael L. Confer, Vice President, Branch Manager
Wade E. Curry, Vice President, Investment Services
Suzanne M. Fisher, Vice President, Human Resources
Ann K. Guss, Vice President, Branch Manager
Gregory T. Hayes, Vice President, Business Banking Manager
Andrew J. Horwitz, JD, CFP®, Vice President, Private Banking Manager
Christopher P. Kelly, Vice President, Information Technology Manager
Marsha K. Kuhns Vice President, Operations and Service Support Manager
John Q. Massie, Regional Vice President, Agricultural Loan Officer
Mark R. Merrifield, Regional Vice President, Loan Officer
Amy M. Muchler, Senior Vice President, Service Quality/Retail Banking
Scott R. Reigle, Vice President, Accounting and Controls Manager
Cheryl E. Shope, Vice President, Market Manager for Huntingdon County
Lynn A. Thompson, Vice President, Insurance Services
Lana M. Walker, Vice President, Commercial Relationship Manager
Debra K. Weikel, Vice President, Mortgage Underwriter
Jeffrey D. Wilson, Chief Executive Officer, Insurance Services

Officers

Eric D. Anderton, Branch Manager
Stanley N. Ayers, Assistant Vice President, Credit Administration Manager
Nancy A. Benton, Business Service Support Specialist
Kathleen M. Boop, Assistant Vice President, Personal Lines Insurance Manager
Kimberly A. Bubb, Business Service Support Manager
Katherine J. Clarke, Assistant Marketing 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
Terra L. Decker, Branch Service Support Manager
Lucinda K. Dell, Mortgage Administrator
Allana L. Hartung, Assistant Vice President, Business Development Coordinator
Carol K. Kennedy, Consumer Lending Officer
Thomas C. Landis, Commercial Relationship Manager
Beverly M. McClellan, Assistant Vice President, Senior Data Analyst
Peter K. Ort, Branch Manager
James H. Roth, Jr., Collections Officer
Melissa K. Royer, Assistant Vice President, Branch Operations Manager, Product Development
Glenn E. Snyder, Jr., Facility Manager
Frances H. Stevenson, Assistant Vice President, Personal Banking Officer
N. Robert Sunday, III, Assistant Vice President, Compliance and Loan Review Officer
Kayelene Sunderland, Assistant Vice President, Trust Officer and Investment Advisor

Kish Bank Employees

Tammy S. Anna, Customer Service Teller
Jesse L. Banks, Personal Banker, Insurance Receptionist
Barry L. Bargo, Courier/Mail Clerk
Melissa D. Beale, Customer Service Teller
Steven E. Bender, Personal Banker
Brandy L. Benson, Customer Service Teller
Diana L. Bock, Personal Banking Specialist
Stacy A. Boozel, Loan Operations Specialist
Vicki L. Brown-Smith, Branch Operations Specialist
Arlene M. Byler, Receptionist
Ashley A. Clark, Customer Service Teller
Brenda Collins, Mortgage Administration Specialist
Lindsey M. Cramer, Customer Service Teller
Richard D. Crider, ALCO and Reporting Manager
Jason M. Cunningham, Credit Analyst
Kati E. Deans, Customer Service Teller
Peggy J. Dearing, Credit Administration Specialist
Oksana F. DeArment, Executive Assistant
Jannifer N. Diehl, Senior Credit Administration Specialist
Heather L. Dubbs, Business Banking Specialist
Benjamin I. Dungan, Customer Service Teller
Beverly J. Eichhorn, Accounting Specialist
Kathy D. Fisher, Branch Support Service Specialist
Keatyn M. Fletcher, Loan Operations Specialist
Sandra G. Fogleman, Assistant Branch Manager
Jodie M. Gibboney, Personal Banker
Karen S. Gilbert, Business Banking Specialist
Janice Y. Glick, Personal Banking Specialist
Candee A. Gutshall, Branch Operations Specialist
Sharon A. Hall, Personal Banker
Lisa J. Hamler, Customer Service Teller
Ashley A. Hartsock, Regional Customer Service Teller
Nikki K. Hartsock, Regional Customer Service Teller
Jeffrey T. Hayes, Financial Advisor
Ashley L. Henry, Accounting Specialist
Sallie M. Hicks, Branch Operations Specialist
Donald F. Hindman, Courier/Mail Clerk
Christina A. Hinkle, Business Banking Specialist
Lara A. Hoffman, Branch Operations Specialist
Crystal D. Kauffman, Customer Service Teller
Paula J. Kauffman, Senior Loan Operations Specialist
Brett P. Keith, Personal Banker
Brittany E. Kern, Business Service Support Specialist
Darla S. King, Branch Service Support Specialist
Karen M. Kochenderfer, Branch Service Support Specialist
Carolyn M. Leacy, Customer Service Teller
Lori Ann Legradi, Customer Service Teller
Carmella J. Long, Personal Banker
Robert A. Mannino, Customer Service Courier
Jeremy G. Mattern, Credit Analyst
Tina K. McCurdy, Branch Operations Specialist
Kathryn A. McKnight, Loan Operations Specialist
Kristie R. McKnight, Business Banking Specialist
Beth N. Metz, Trust Operations Specialist and Human Resources Assistant
Fawn R. Miller, Customer Service Teller
Mary A. Miller, Executive Assistant
Joanna M. Minium, Credit Administration Specialist
Jennifer A. Mitchell, Mortgage Administration Specialist
Amber N. Muchler, Personal Banker
Tina L. Nace, Senior Credit Administration Specialist
Carol A. Noland, Payroll and Benefits Administrator
Sandra P. Norris, Mortgage Originator
Melissa A. Paladino, Branch Service Support Data Analyst
Constance F. Palm, Branch Manager
Anne E. Parks, Customer Service Teller
Susan K. Peachey, Branch Operations Specialist
Danielle A. Peck, Loan Operations Specialist
Susan C. Rainey, Customer Service Teller
Megan D. Royer, Investment Services Administrative Assistant
Billie A. Rupert, Investment Services Assistant
Krista M. Rupert, Customer Service Teller
Leslie J. Sauer, Accounting Specialist
Tara Lynn Scyoc, Customer Service Teller
Melissa A. Sellers, Business Banking Specialist
Michelle D. Shaffer, Personal Banking Specialist
April L. Shawver, Customer Service Teller
Paula A. Stimeling, Loan Operations Specialist
Stephanie L. Strickler, Marketing Support Specialist
Wendy S. Strohecker, Branch Service Support Assistant Manager
Crystal M. Sunderland, Branch Operations Specialist
Jonathan D. Swanger, Customer Service Teller
Angela E. Swartzentruber, Customer Service Teller
Christopher E. Sweeney, Financial Planner
Cynthia G. Swineford, Customer Service Teller
Quinn L. Swineford, Branch Service Support Specialist
Scott A. Treaster, Information Security Administrator
Patricia A. Trinclisti, Customer Service Teller
Donald L. Varner, Courier and Maintenance Supervisor
Jeanne L. Wagner, Customer Service Teller
Dana E. Watson, Branch Service CIS/IRA Manager
Rebecca M. Watt, Senior Mortgage Administration Specialist
Elaine S. Weller, Assistant Branch Manager
Debra J. Wert, Business Banking Specialist
Stacey E. Wilson, Customer Service Teller
Carolyn R. Yoder, Customer Service Teller
Roland G. Yoder, Courier/Mail Clerk
Nancy A. Zimmerman, Personal Banker

Kish Insurance Employees

Jonathan T. Baker, Agency Accounting Specialist
Jennifer R. Beachel, Insurance Operations Specialist
Kathleen M. Boop, Assistant Vice President, Personal Lines Insurance Manager
Duane J. Coy, Insurance Specialist, Commercial Lines
Megan S. Diemert, Personal Lines Insurance Specialist
Suzanne M. Grimes, Customer Service Representative
Marlene K. Johnson, Personal Lines, Customer Service Representative
Gina K. Perrin, Personal Lines, Customer Service Representative
Cindy J. Robinson, Commercial Lines, Customer Service Representative
Lynn A. Thompson, Vice President, Insurance Services
J. Anthony Willard, Commercial Lines Specialist
Jeffrey D. Wilson, Chief Executive Officer, Insurance Services

Kish Travel Employees

Jolene K. Byler, Assistant Manager, Travel Consultant
Donna R. Feicke, Office Assistant
Sandra L. Hunley, Lead Travel Agent
D. Michael Whalen, General Manager

Kish Employees from Left to Right: Jennifer Mitchell and Barry Bargo at United Way Day of Caring in Mifflin County; Stephanie Strickler and her class for the 2008 Teach Children to Save Day; Gregory Hayes coaching the PSU Rowing Team; Karen Gilbert, Cam Long and Shana Booher at the Belleville Parade; Angela Swartzentruber after teaching in the 2008 Teach Children to Save Day; and Oksana DeArment helping out at a YBMC volunteer event.

KISH BANCORP
expect more