2009 ANNUAL REPORT

KISH BANKING

KISH INSURANCE

KISH FINANCIAL

KISH TRAVEL

many solutions one promise expect more

KISH BANCORP

expect more

Chairman's Letter to the Shareholders

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

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KISH
expect more

The promise of sustained performance for our customers, communities and shareholders has been a unifying focus for Kish Bancorp for more than 100 years. Through periods of turmoil and stability, this commitment to performance has been the discipline around which day-to-day decisions have been made and the course for the future of the organization has been charted. It has guided us to this point in our history, and it will lead us forward as we seek to realize the opportunities that lie ahead. During 2009, this commitment to long-term performance served once again as a critical touchstone that guided this company as we navigated through one of the most challenging periods in our history.

The 2009 Kish Bancorp, Inc. Annual Report is presented against the backdrop of an ongoing national struggle with a deep and prolonged economic recession. Since the recession began in late 2007, the destruction of economic value and the toll on the nation's banking system have been extensive. Across the country, banks have been forced to set aside long-term business plans in order to respond to the immediate threats posed by this massive recession. Through 2009, as the recession lengthened, the Central Pennsylvania region, its businesses, and Kish Bancorp were not immune to its effects. As with most banks, for Kish this was reflected in increasingly troubled and non-performing loan relationships and an amplified focus on risk management.

The most visible evidence of the impact of the economic climate were the two key measures of financial performance, net income and earnings per share, both of which decreased by just over 18 percent in 2009. Consequently, return on shareholders' equity fell to 9.73 percent for the year from 12.75 percent in 2008. This negative comparison in year-over-year performance was driven by an effort to significantly strengthen the Corporation's balance sheet. In spite of actual loan losses of just $252,000 during the year, over $2.3 million from earnings was set aside as a provision to the reserve for possible loan losses. This action, together with the issuance of capital in the form of subordinated debt by the Corporation, significantly strengthened our capacity to withstand current economic conditions and to manage rising risk measures in the balance sheet and loan portfolio. It should be noted that, although classifications within the bank's loan portfolio have deteriorated due to profitability pressures for many of our business borrowers, the great majority continue to meet their payment obligations and have demonstrated a capacity to manage through the current downturn. Since the onset of the recession, our goal has been to prudently assist our borrowers in managing through these difficult conditions. To that end, the bank has continued to lend and meet its obligations to our customers and communities.

Behind the decline in earnings, there is much that is positive to highlight in the 2009 financial performance results. Growth in the core banking business was exceptionally strong with double-digit growth in both deposits, up 15.6 percent, and loans, higher by 10.3 percent; all of which translated into a 9.8 percent increase in net interest income. Core non-interest income from banking activities was especially positive, up 18.8 percent reflecting year-long strength in mortgage originations and growth in bank service fees. Revenues from the Corporation's non-banking units, including insurance, investment services and travel services, held steady year over year, with a decline in all of these units' net profit contributions due to higher operating expenses associated with the addition of new personnel.

In a less challenging economic environment, the strong contributions from core banking operations would have been more than sufficient to absorb the increased costs of opening our newest Financial Center in State College and community office in Bellefonte, as well as covering significantly higher FDIC premium assessments. While the large provision for potential future loan losses altered final 2009 results, these funds remain available to insulate future earnings from losses that may be present in the current portfolio. It is also noteworthy to point out the strength of our 2009 financial results relative to the industry. Banks everywhere are struggling under the weight of the ongoing recession. Not only was the Corporation able to achieve positive earnings, but it also improved its position to deliver on the promise of future performance for our customers, shareholders and communities.

While this Report communicates Kish Bancorp's achievement of solid financial results in a troubled environment, it also documents the capacity of the Kish team to respond to difficult and challenging circumstances and to adjust to the reality of an extended economic contraction and rising risk indicators for the banking industry. This was accomplished while maintaining a focus on the substantial competitive opportunities that exist in this environment.

Not only was the Corporation able to achieve positive earnings, but it also improved its position to deliver on the promise of future performance for our customers, shareholders and communities.

Throughout 2009, Kish's management team was engaged in assessing and directing efforts to respond to rising risks caused by the lengthening recessionary environment. Because of these powerful external forces, important measures were implemented to enhance capital management, improve risk management activities and strengthen the balance sheet.

Capital management was an early focus, with the successful issuance of $3 million in subordinated debt to private, local investors in the first half of 2009, and, later in the year, the improvement of the Corporation's risk weighted capital ratios through the sale of certain corporate and municipal securities. Capital ratios were raised significantly by year end to ensure that the Corporation maintained a comfortable margin to all regulatory measures for well capitalized banks. This was achieved despite the double-digit growth in loans and assets during the year. Actions were also implemented to address rising credit and asset quality concerns. By year end, over $2.3 million had been added to the loan loss reserve while management resources had been redirected to support existing commercial loan relationships. Many of these actions also reflected the changing regulatory environment and heightened attention to risk management efforts. In addition, we took action to add critical financial and risk management expertise with the appointment of J. Bradley Scovill to the team as Chief Financial Officer. Brad, a seasoned bank executive, brings a wealth of valuable experience to the company.

Yet, even as we were addressing these rising risk related priorities, the management team did not lose sight of the long-term objective of maximizing shareholder value through new customer acquisition efforts and the expansion of the franchise. We opened new offices in Bellefonte and State College. The opening of our flagship Financial Center on North Atherton was a highly visible reflection of our commitment to State College with a facility that supports all of the company's business lines. We also strengthened our regional business development efforts under the leadership of our Regional Market Managers. In support of these efforts, our marketing team refreshed the Kish brand with a new customer-centric campaign; elements of that campaign, which present a greater emphasis on individual business units, are incorporated in this report.

During 2009, we heightened our focus on service quality with the elevation of service excellence standards and enhanced training for front line personnel. We undertook a major revamp of the Kish Web site to reflect the enhanced brand and incorporate state-of-the-art Web site architecture and navigation tools. This improved delivery channel and communication vehicle will be rolled out in mid 2010. Also reflecting a significant period of preparatory groundwork, a new residential mortgage origination platform hit full stride in 2009, which led to a 45 percent increase in secondary market mortgage origination revenues.

There is much to note that is positive about Kish's performance in 2009 and limited space in which to do so. There will come a time to reflect on this tumultuous occasion in our history. We believe that 2009 will prove to be a watershed year in the Corporation's growth and progress; one where the foundation for our future performance was strengthened and where we continued to build a strong competitive advantage. Today, however, we will simply close with a sincere note of appreciation for the extraordinary efforts and dedication of the team that has guided the company through more than two years of difficult conditions for the economy and the banking industry. We also acknowledge the support and loyalty of our shareholders, as well as the confidence of our subordinated debt investors, without whom we could not plan for the future with the confidence and enthusiasm that we all share.

As always, as you review this report and throughout the year ahead, we welcome your inquiries regarding the Corporation's performance.

Sincerely,

William P. Hayes

William P. Hayes
Chairman, President and Chief Executive Officer

Delivering on the promise

At Kish, we tell our customers to Expect More from us. But Expect More is also our promise to our shareholders. It reflects our commitment to exceptional investment performance, generated by the increasing value of our customer relationships, as we strive to provide superior service that retains loyal customers, encourages them to turn to Kish for more of their needs, and attracts new customers.

The specifics of our efforts change as we expand the breadth of our services and as the industries in which we participate evolve. Yet the diverse solutions we apply share a common focal point that continues to serve us well. Across Kish Bank, Kish Financial Solutions, Kish Insurance, and Kish Travel, the core principle that guides our decision-making is *Expect More*. It means many solutions, one promise.

In 2009, our key accomplishment in delivering on our promise to shareholders was achieving positive performance in the midst of a troubled economy, while also continuing to move long-term plans ahead. And we enter 2010 well positioned for even stronger performance.

During a year in which many banks were forced to put long-term plans on hold, we continued to expand the Kish franchise. We opened a new office in Bellefonte. And we proudly unveiled our flagship Financial Center in State College—a single location that provides an unprecedented depth of services.

Kish Financial Center, State College, PA

expect more


KISH
INSURANCE
"It's about protecting what's close to our hearts."
– John & Eva Marchione
PlumRiver, LLC


KISH
BANKING
"They figured out how to make it happen."
– Randy Bachman
Bachman Homes


KISH
TRAVEL
"They helped us plan a vacation of a lifetime."
– Zeke and Clara Acker
Travel Customers


KISH
FINANCIAL
"Expect peace of mind about the future."
– Mike Rodli
John R. Wald Co.

We view the State College Financial Center as the latest chapter in our Company's evolution. In one convenient location, customers have access to the four financial services business units that make up the Kish family—Kish Bank, Kish Financial Solutions, Kish Insurance, and Kish Travel—each having emerged as a distinguished, reputable business in its own right for providing comprehensive, quality service like our other financial centers in Mifflin and Huntingdon Counties. Yet the center brings them together under one Kish roof, symbolizing the Expect More experience that unifies them.

Our new brand strategy creates a strong identity for each business unit serving distinct customer needs. Yet through graphical and messaging elements, the brand architecture also pulls them together under an overarching Kish brand, building out the Expect More promise, with its meaning as a common thread.

The first expression of the new brand identity is a marketing campaign that we debuted in 2009, focused on the unique and long-standing Kish experience. Customers, who know firsthand how Kish delivers on the Expect More promise, are the center of the initiative, which will continue into 2010. In print and broadcast media, the campaign presents customers from each business unit as they enthusiastically relate to their personal stories of how Kish has made Expect More a reality for them.

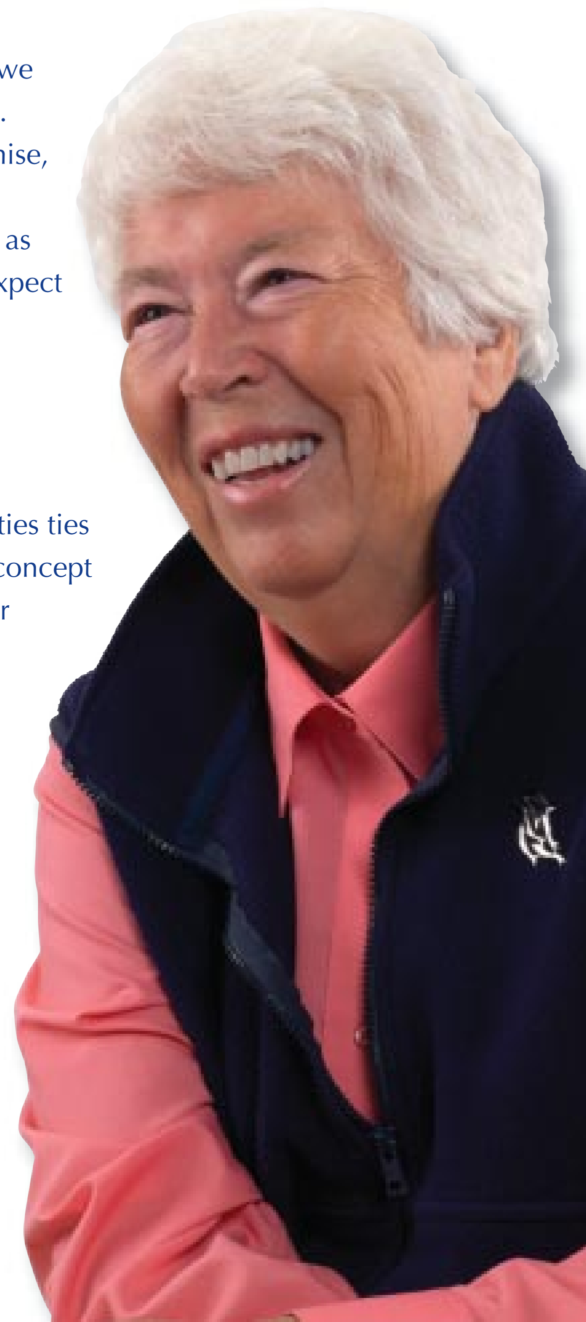
Although our two "construction projects"—building a new flagship facility and building a new brand architecture—differ in terms of their output, they both symbolize a watershed moment in the company's history.

The presentation of the Kish businesses as distinct yet culturally unified entities ties in with an overarching philosophy of building long-term relationships. The concept is a natural extension of a corporate culture of tenaciously focused customer service. As we serve our customers, we deepen our understanding of their needs and how they are met with different Kish solutions. Customers who know they can Expect More from every unit of Kish will be the foundation of our continued growth and success—one relationship at a time.

In 2009, our response to the financial crisis, our continued growth and expansion efforts, our enhancements to products and services, our new brand architecture, and further evolution of our relationship-building strategies worked synergistically to bring Kish Bancorp through the year as an even stronger company.

"When they say Expect More, they mean it."

– Ellen Perry
Personal Banking Customer



Net income during 2009 was $3.213 million, a decline of $725 thousand, or 18.4 percent from $3.938 million in 2008. Consistent with the change in net income, earnings per share decreased 18.6 percent to $6.08 from $7.47 in 2008. Return on average equity was 9.73 percent during 2009, down from 12.75 percent in 2008, yet still compared favorably with peer performance of 8.70 percent.

The Corporation's total assets rose to $527 million, an increase of $51 million, or 10.7 percent compared to $476 million as of December 31, 2008. Net loans outstanding grew to $368 million, an increase of $35 million, or 10.3 percent from $333 million at the end of 2008. Deposits were 15.6 percent higher in 2009, rising to $408 million from $353 million the previous year.

Net interest income increased 9.8 percent to $15.5 million during 2009, compared to $14.1 million during 2008. This performance reflects the positive margin contribution from profitable loan and deposit growth. Net interest income after provision for loan losses declined 4.8 percent to $13.2 million during 2009, compared to $13.8 million in 2008.

Contributions to the allowance for potential loan losses increased to $2.344 million in 2009 from $299 thousand in 2008, reflecting continued weakness in local and national economic conditions, increases in the Corporation's non-performing and classified loans, and continued growth in the loan portfolio. Actual net charge-offs during 2009 were $252 thousand, compared to a net recovery of $5 thousand in 2008. As a result, the allowance for loan losses increased substantially to $5.4 million, or 1.44 percent of loans outstanding at December 31, 2009, compared to $3.3 million, or 0.98 percent, a year earlier.

Non-interest income increased by $1.5 million, or 39.7 percent, to $5.3 million in 2009 from $3.8 million in 2008. Excluding gains from investing and trading activities, non-interest income rose by $1.042 million, or 29.7 percent, primarily due to yearlong strength in secondary market residential mortgage origination activities and growth in service fees. Combined revenues from insurance, investment, and travel business units were essentially unchanged in 2009 when compared to 2008.

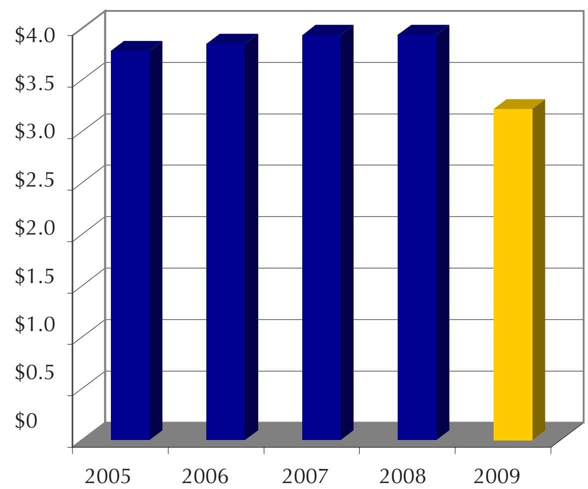
Non-interest expense was $14.9 million during 2009, an increase of $2.1 million, or 16.2 percent from $12.8 million in 2008. Included in the 2009 results are increases of $453 thousand in FDIC assessments and $200 thousand in legal fees related to the resolution of problem loans. Increases in salaries and benefits, occupancy, and advertising expenses were driven by the opening of a new office in Bellefonte and financial center in State College.

Capital ratios were strengthened throughout the year, due to the private placement of $3 million in subordinated debt with qualified local investors, the sale of certain corporate and municipal securities, and increased contribution to the reserve for loan losses. Dividends paid were $3.24 in 2009, unchanged from 2008. As a result, the Corporation's Primary Capital/Total Assets ratio was 7.48 percent on December 31, 2009, compared to 7.27 percent a year earlier, and the Total Capital/Risk Weighted Assets ratio increased to 11.26 percent from 10.40 percent during the same period. Both of these ratios remain well above regulatory guidelines for "well-capitalized" status and enhance the Corporation's ability to support continued growth.

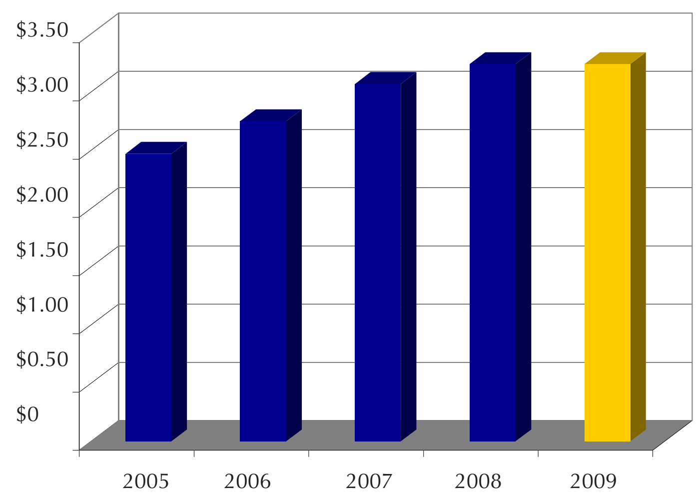
Five-Year Summary

FOR THE YEAR	2009	2008	2007	2006	2005
Net Income	$3,213,423	$3,937,791	$3,933,582	$3,848,451	$3,779,252
Net Income Before Taxes	3,586,370	4,817,481	4,826,174	4,743,720	4,484,562
Total Dividends Declared	1,721,575	1,713,474	1,629,120	1,527,572	1,397,675
AT YEAR END (IN 000's)					
Total Assets	$527,396	$476,263	$454,092	$413,429	$411,964
Total Loans (Net)	367,824	333,434	305,729	287,622	267,477
Total Deposits	407,721	352,729	331,688	319,352	300,591
Stockholders' Equity	34,062	31,302	30,323	29,687	28,338
Loan Loss Reserve	5,397	3,305	3,001	2,963	2,708
Net Loan Losses (Recoveries)	252	(5)	140	94	23
RATIO ANALYSIS					
Return on Average Assets	0.64%	0.84%	0.92%	0.93%	0.95%
Return on Average Equity	9.73%	12.75%	13.32%	12.99%	13.29%
Dividend Declared/Net Income	53.57%	43.51%	41.42%	39.69%	36.98%
Loan/Deposits	90.21%	94.53%	92.17%	90.06%	88.98%
Primary Capital/Total Assets	7.48%	7.27%	7.34%	7.90%	7.54%
Total Capital/Risk Weighted Assets	11.26%	10.40%	10.41%	11.12%	10.70%
Loan Loss Reserve/Loans	1.44%	0.98%	0.97%	1.02%	1.00%
Net Loan Losses to Total Loans (Net)	0.07%	0.00%	0.05%	0.03%	0.01%
PER SHARE DATA					
Basic Earnings	$6.08	$7.47	$7.37	$6.94	$6.69
Fully Diluted Earnings	6.07	7.47	7.35	6.90	6.63
Dividends Paid	3.24	3.24	3.03	2.75	2.47
Equity (Book Value)	63.61	59.04	57.50	54.03	50.61
Equity Plus Loan Loss Reserve	73.69	65.27	63.19	59.43	55.44
Average Shares Outstanding (#)	528,125	527,044	534,916	554,671	564,733

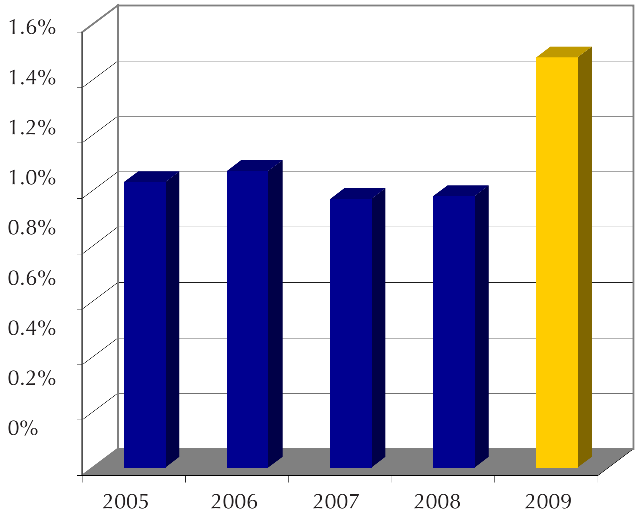
Net Income (in millions)



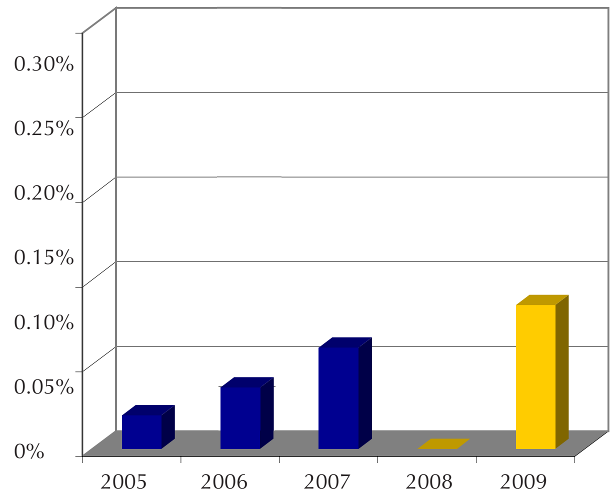
Dividends Per Share



Loan Loss Reserve/Loans

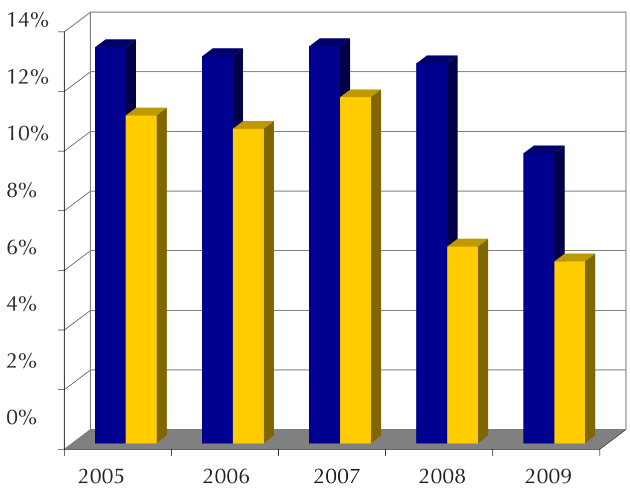


Net Loan Losses to Total Loans (Net)

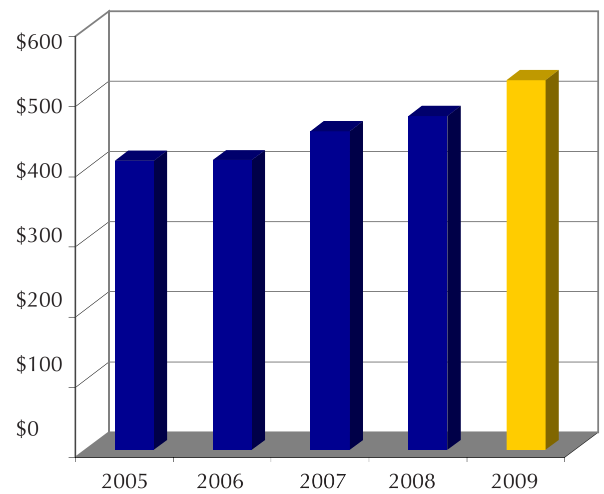


Return on Average Equity

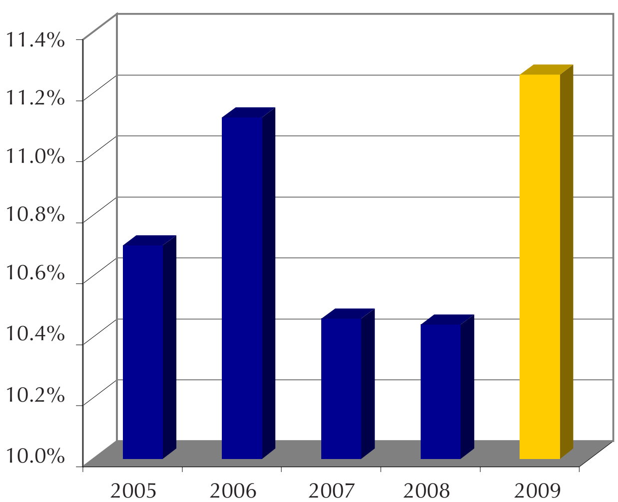
Kish Bank | PA Community Banks with $400mm to $600mm in Assets



Total Assets (in millions)

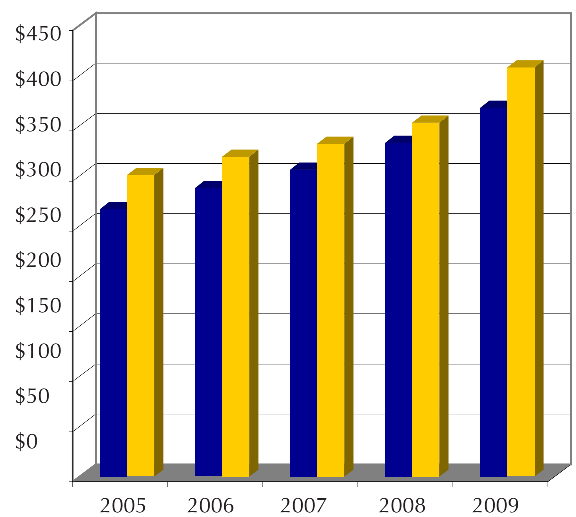


Total Capital/ Risk Weighted Assets



Total Loans and Total Deposits (in millions)

Total Loans (Net) | Total Deposits



Report of Independent Auditors

Kish Bancorp, Inc.
Consolidated Audited Financial Statements
December 31, 2009

Page Number

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, 2009 and 2008, 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, 2009 and 2008, 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*. This guidance was subsequently codified into Financial Accounting Standards Board ASC Topic 715-60, *Compensation – Retirement Benefits*.

S.R. Snodgrass, A.C.

Wexford, PA
March 19, 2010

	December 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 8,659,181	$ 14,086,275
Interest-bearing deposits with other institutions	28,538,280	535,142
Cash and cash equivalents	37,197,461	14,621,417
Certificates of deposit in other financial institutions	3,558,204	4,946,828
Trading securities	-	5,356,690
Investment securities available for sale	78,078,041	82,948,641
Loans held for sale	573,990	399,318
Loans	373,220,076	336,738,338
Less allowance for loan losses	5,396,553	3,304,753
Net loans	367,823,523	333,433,585
Premises and equipment	13,406,992	10,299,828
Goodwill	1,668,699	1,712,078
Regulatory stock	4,144,300	4,144,300
Bank-owned life insurance	11,270,777	10,867,431
Accrued interest and other assets	9,673,859	7,532,949
TOTAL ASSETS	$ 527,395,846	476,263,065
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 43,028,679	$ 43,103,632
Interest-bearing demand	8,813,878	13,030,766
Savings	31,910,401	27,038,373
Money market	134,425,058	98,275,535
Time	189,543,021	171,280,637
Total deposits	407,721,037	352,728,943
Short-term borrowings	4,627,902	5,954,014
Other borrowings	76,923,802	81,415,908
Accrued interest and other liabilities	4,061,398	4,862,642
TOTAL LIABILITIES	493,334,139	444,961,507
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	273,712	619,499
Retained earnings	39,966,902	38,475,054
Accumulated other comprehensive income (loss)	246,582	(860,927)
Treasury stock, at cost (74,549 and 80,171 shares)	(6,730,489)	(7,237,068)
TOTAL STOCKHOLDERS' EQUITY	34,061,707	31,301,558
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 527,395,846	$ 476,263,065

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

	Year Ended December 31, 2009	2008
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 20,436,686	$ 20,705,165
Exempt from federal income tax	1,053,227	865,753
Interest and dividends on investment securities:		
Taxable	2,209,795	2,757,443
Exempt from federal income tax	1,475,236	1,461,085
Interest-bearing deposits with other institutions	134,947	468,624
Other dividend income	121,716	231,690
Total interest and dividend income	25,431,607	26,489,760
INTEREST EXPENSE		
Deposits	5,978,847	8,163,079
Short-term borrowings	92,222	245,600
Other borrowings	3,835,162	3,943,381
Total interest expense	9,906,231	12,352,060
NET INTEREST INCOME	15,525,376	14,137,700
Provision for loan losses	2,344,000	299,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,181,376	13,838,700
NONINTEREST INCOME		
Service fees on deposit accounts	1,457,923	1,382,764
Trading securities losses, net	(6,740)	(1,364)
Investment securities gains, net	758,624	288,666
Other-than-temporary impairment loss	(163,351)	(519,499)
Gain on sale of loans, net	780,619	459,918
Earnings on bank owned life insurance	388,978	340,301
Insurance commissions	821,831	789,246
Travel agency commissions	203,377	237,002
Other	1,063,932	821,216
Total noninterest income	5,305,193	3,798,250
NONINTEREST EXPENSE		
Salaries and employee benefits	7,915,543	7,348,084
Occupancy and equipment	1,935,207	1,450,736
Data processing	1,308,640	1,225,954
Professional fees	223,559	165,783
Advertising	321,296	248,462
Federal deposit insurance	602,926	150,364
Goodwill impairment	43,379	-
Other	2,549,649	2,230,086
Total noninterest expense	14,900,199	12,819,469
Income before income taxes	3,586,370	4,817,481
Income taxes	372,947	879,690
NET INCOME	$ 3,213,423	$ 3,937,791
EARNINGS PER SHARE		
Basic	$ 6.08	$ 7.47
Diluted	6.07	7.47

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance, December 31, 2007	$ 305,000	$ 744,222	$ 36,739,324	$ 50,052	$ (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		(184,050)			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	619,499	38,475,054	(860,927)	(7,237,068)	31,301,558	
Net income			3,213,423			3,213,423	$ 3,213,423
Other comprehensive income:							
Unrealized gain on available-for-sale securities, net of reclassification adjustment, net of tax benefit of $570,535				1,107,509		1,107,509	1,107,509
Comprehensive income							$ 4,320,932
Stock option compensation expense		14,840				14,840	
Purchase of shares by RSP		(443,393)			443,393	-	
Forfeiture of shares by RSP		2,031			(2,031)	-	
Amortization of unearned RSP shares		119,116				119,116	
Cash dividends ($3.24 per share)			(1,721,575)			(1,721,575)	
Purchase of treasury stock (859 shares)					(48,120)	(48,120)	
Sale of treasury stock (1,246 shares)		(38,381)			113,337	74,956	
Balance, December 31, 2009	$ 305,000	$ 273,712	$ 39,966,902	$ 246,582	$ (6,730,489)	$ 34,061,707	

	2009	2008
Components of other comprehensive income (loss)		
Change in net unrealized gain (loss) on investments available for sale	$ 1,500,389	$ (1,063,329)
Realized gains included in net income, net of tax of $257,932 and $98,147	(500,692)	(190,519)
Other-than-temporary impairment losses included in the net income, net of tax benefi of $55,539 and $176,630	107,812	342,869
Total	$ 1,107,509	$ (910,979)

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

	Year Ended December 31, 2009	Year Ended December 31, 2008
OPERATING ACTIVITIES		
Net income	$ 3,213,423	$ 3,937,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,344,000	299,000
Goodwill impairment	43,379	-
Investment securities gains, net	(758,624)	(288,666)
Other-than-temporary impairment loss	163,351	519,499
Net change in investment securities held for trading	5,356,690	13,064,281
Proceeds from sale of loans held for sale	35,211,414	19,110,587
Origination of loans held for sale	(34,605,467)	(18,651,987)
Gain on sales of loans, net	(780,619)	(459,918)
Depreciation, amortization and accretion	1,177,209	902,130
Deferred income taxes	(262,905)	(144,858)
Decrease in accrued interest receivable	240,917	340,313
Decrease in accrued interest payable	(283,294)	(383,343)
Earnings on bank-owned life insurance	(388,978)	(340,301)
Increase in prepaid federal deposit insurance	(2,361,911)	-
Other, net	31,992	247,883
Net cash provided by operating activities	8,340,577	18,152,411
INVESTING ACTIVITIES		
Maturities of certificates of deposit	4,088,624	2,977,441
Purchase of certificates of deposit	(2,700,000)	(1,627,260)
Investment securities available for sale:		
Proceeds from sale of investments	39,496,222	21,073,175
Proceeds from repayments and maturities	17,877,389	14,146,530
Purchases	(50,653,486)	(35,022,292)
Investment securities held to maturity:		
Proceeds from repayments and maturities	-	250,000
Increase in loans, net	(37,691,093)	(28,077,813)
Purchase of regulatory stock	-	(1,039,900)
Redemption of regulatory stock	-	636,700
Purchase of bank-owned life insurance	-	(1,430,000)
Purchase of premises and equipment	(3,860,580)	(2,544,964)
Proceeds from sale of other real estate owned	199,254	-
Net cash used for investing activities	(33,243,670)	(30,658,383)
FINANCING ACTIVITIES		
Increase in deposits, net	54,992,094	21,041,085
Decreases in short-term borrowings, net	(1,326,112)	(16,488,233)
Proceeds from other borrowings	6,793,300	24,739,526
Repayments of other borrowings	(11,285,406)	(8,947,497)
Purchases of treasury stock	(48,120)	(90,464)
Proceeds from sale of treasury stock	74,956	146,042
Exercise of stock options	-	10,937
Cash dividends	(1,721,575)	(1,713,474)
Net cash provided by financing activities	47,479,137	18,697,922
Increase in cash and cash equivalents	22,576,044	6,191,950
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,621,417	8,429,467
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 37,197,461	$ 14,621,417
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 10,189,525	$ 12,735,403
Income taxes	585,000	910,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate aquired in settlement of loans	$ 957,155	-

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 evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Loans

Loans are reported at their principal amount net of the allowance for loan losses. Interest on loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectibility of additional interest. Interest previously accrued but deemed uncollectible is deducted from current interest income. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectibility of such principal.

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

In general, fixed rate, permanent residential mortgage loans originated by the Bank are held for sale and are carried in the aggregate at the lower of cost or market. Such loans are sold to Federal Home Loan Bank ("FHLB") and serviced by the Bank.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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.

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

Bank-Owned Life Insurance (BOLI)

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

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* FASB ASC Topic 715-60, *Compensation – Retirement Benefits.* This guidance was subsequently codified into Financial Accounting Standards Board ASC Topic 715-60, *Compensation – Retirement Benefits.*

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.

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

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.

Income Taxes

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

Earnings Per Share

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

Stock Options

As of December 31, 2009 and 2008, the Company recorded compensation expense of $14,840 and $14,526 related to share-based compensation awards. At December 31, 2009, there was approximately $31,275 in unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next two years.

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)
2009	6.20 %	2.31 %	15.53 %	6.30
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 2009 was $2.61. The total intrinsic value of options exercised during the year ended December 31, 2008 was $637. There were no options exercised during the year ended December 31, 2009.

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. Annually, the Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. 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.

	2009	2008
Weighted-average common shares outstanding	610,000	610,000
Average treasury stock shares	(77,461)	(80,912)
Average unearned nonvested RSP shares	(4,414)	(2,044)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	528,125	527,044
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	59	-
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	1,093	-
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	529,277	527,044

Options to purchase 54,860 and 53,860 shares of common stock at a price of $70.00 to $96.75, as of December 31, 2009 and 2008, and 4,962 and 2,454 shares of restricted stock ranging in price from $51.00 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

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

	2008
U.S. government agency securities	$ 3,030,620
Corporate securities	2,326,070
Total	$ 5,356,690

The net loss on trading securities, which includes amounts realized from sale transactions and mark to market adjustments, totaled $6,740 and $1,364 as of December 31, 2009 and 2008, respectively.

4. INVESTMENT SECURITIES

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

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agency securities	$ 20,918,736	$ 153,843	$ (60,623)	$ 21,011,956
Obligations of state and political subdivisions	33,310,444	935,711	(274,066)	33,972,089
Corporate securities	3,115,791	-	(375,254)	2,740,537
Mortgage-backed securities	17,866,786	381,937	(6,717)	18,242,006
Total debt securities	75,211,757	1,471,491	(716,660)	75,966,588
Equity securities	2,498,786	154,339	(541,672)	2,111,453
Total	$ 77,710,543	$ 1,625,830	$ (1,258,332)	$ 78,078,041

	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

4. INVESTMENT SECURITIES (Continued)

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, 2009 and 2008.

	2009					
	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	$ 9,002,580	$ (60,623)	$ -	$ -	$ 9,002,580	$ (60,623)
Obligations of states and political subdivisions	208,247	(7,591)	7,213,772	(266,475)	7,422,019	(274,066)
Corporate securities	250,000	-	2,490,537	(375,254)	2,740,537	(375,254)
Mortgage-backed securities	785,362	(6,717)	-	-	785,362	(6,717)
Total debt securities	10,246,189	(74,931)	9,704,309	(641,729)	19,950,498	(716,660)
Equity securities	609,514	(162,820)	854,837	(378,852)	1,464,351	(541,672)
Total	$ 10,855,703	$ (237,751)	$ 10,559,146	$ (1,020,581)	$ 21,414,849	$ (1,258,332)

	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)

The Company reviews its position quarterly and has asserted that at December 31, 2009, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 76 and 128 positions that were temporarily impaired at December 31, 2009 and December 31, 2008, respectively. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or Company-specific ratings changes that are not expected to result in the non-collection 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 $163,351 and $519,499 of impairment losses as of December 31, 2009 and 2008, respectively.

4. INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of debt securities at December 31, 2009, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 481,316	$ 481,697
Due after one year through five years	22,536,119	22,935,114
Due after five years through ten years	28,198,230	28,614,665
Due after ten years	23,996,092	23,935,112
Total	$ 75,211,757	$ 75,966,588

Investment securities with a carrying value of $47,411,828 and $47,796,306 at December 31, 2009 and 2008, 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:

	2009	2008
Proceeds from sales	$ 39,496,222	$ 21,073,175
Gross gains	1,203,110	457,575
Gross losses	(444,486)	(168,909)
Other-than-temporary impairment loss	(163,351)	(519,499)

5. LOANS

Major classifications of loans are summarized as follows:

	2009	2008
Commercial and agricultural	$ 88,386,003	$ 76,559,263
Real estate mortgages:		
Residential	134,465,617	128,281,540
Construction	18,346,907	16,140,903
Commercial	123,150,034	107,264,675
Installment	7,219,148	6,764,421
Lines of credit	1,652,367	1,727,536
	373,220,076	336,738,338
Less allowance for loan losses	5,396,553	3,304,753
Net loans	$ 367,823,523	$ 333,433,585

Mortgage loans serviced by the Company for others amounted to $52,477,456 and $62,354,738 at December 31, 2009 and 2008, respectively.

5. LOANS (Continued)

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

	2009	2008
Balance, January 1	$ 3,304,753	$ 3,000,861
Add:		
Provisions charged to operations	2,344,000	299,000
Recoveries	40,239	49,217
Less loans charged off	(292,439)	(44,325)
Balance, December 31	$ 5,396,553	$ 3,304,753

The Company had nonaccrual loans, inclusive of impaired loans of $7,874,357 and $1,840,273 at December 31, 2009 and 2008, respectively. Interest income on loans would have increased by approximately $174,073 and $98,610 during 2009 and 2008, respectively, if these loans had performed in accordance with their original terms.

Information with respect to impaired loans and the related allowance for loan losses for the year ended December 31, 2009 and 2008, are as follows:

	2009	2008
Impaired loans		
With a related allowance for loan losses	$ 5,257,028	$ 2,511,121
Without a related allowance for loan losses	2,358,378	64,913
Related allowance for loan losses	1,391,260	699,877
Average recorded balance of impaired loans	4,417,269	2,145,894
Interest income recognized on impaired loans	55,782	60,186

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, 2009 and 2008, 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, 2009, is as follows:

2008	Additions	Amounts Collected	2009
$ 5,002,966	$ 2,676,389	$ 3,288,002	$ 4,391,353

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2009	2008
Land and land improvements	$ 793,458	$ 793,458
Building and leasehold improvements	14,560,112	11,258,730
Furniture, fixtures, and equipment	4,026,602	3,467,404
	19,380,172	15,519,592
Less accumulated depreciation	5,973,180	5,219,764
Total	$ 13,406,992	$ 10,299,828

Depreciation and amortization charged to operations was $753,416 in 2009 and $574,465 in 2008.

7. GOODWILL

As of December 31, 2009 and 2008, goodwill had a carrying amount of $1,668,699 and $1,712,078, respectively. 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, a goodwill impairment loss of $43,379 was recognized for the year ended December 31, 2009. No impairment loss was recognized for the year ended December 31, 2008.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2010	$ 123,945,602
2011	24,973,271
2012	17,906,794
2013	8,700,006
2014	8,888,144
Thereafter	5,129,204
	$ 189,543,021

The aggregate of all time deposit accounts of $100,000 or more amounted to $46,278,439 and $51,745,058 at December 31, 2009 and 2008, respectively.

9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, Federal Funds Purchased, 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, 2009 and 2008, the Company was in compliance with all of its covenants. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2009	2008
Balance at year-end	$ 4,627,902	$ 5,954,014
Average balance outstanding	7,492,969	6,320,953
Maximum month-end balance	8,881,117	6,244,917
Weighted-average rate at year-end	1.66%	3.60%
Weighted-average rate during the year	1.23%	3.89%

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, 2009	At December 31, 2008
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		38,924,481	37,881,181
Fixed rate amortizing	07/21/10	06/26/18	4.05		3.43		6.53		5,813,321	8,332,227
Mid-term repos	08/03/09	01/24/11	4.14		2.78		5.12		8,000,000	14,016,500
Subordinated capital notes	03/23/19	06/26/19	8.50		8.50		8.50		3,000,000	-
Note payable	03/17/35	11/23/35	6.32		6.11		6.52		6,186,000	6,186,000
									$ 76,923,802	$ 81,415,908

Maturities of other borrowings at December 31, 2009, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2010	$ 14,305,867	5.35 %
2011	13,315,070	4.22
2012	18,840,261	4.56
2013	14,699,882	3.82
2014	4,217,600	3.19
2015 and after	11,545,122	6.63
	$ 76,923,802	4.74 %

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, 2009, the Bank's maximum borrowing capacity with the FHLB was approximately $156 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 Consolidated 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 Consolidated Balance Sheet.

Under current accounting rules, the Company's minority interest in these Entities were recorded at the initial investment amount and is included in the other assets section of the Consolidated Balance Sheet. These Entities are not consolidated as part of the Company's consolidated financial statements.

In March 2009, the Company issued $3,000,000 of fixed/floating rate subordinated debt securities with stated maturities of March 23, 2019 through June 26, 2019. These securities bear a fixed annual rate of 8.5 percent. The Company may redeem them, in whole or in part, at face value on or after March 23, 2014. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

11. INCOME TAXES

The provision for federal income taxes consists of:

	2009	2008
Current	$ 635,852	$ 1,024,548
Deferred	(262,905)	(144,858)
Total provision	$ 372,947	$ 879,690

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:

	2009	2008
Deferred tax assets:		
Allowance for loan losses	$ 1,834,828	$ 1,123,616
Deferred compensation	246,694	255,541
Core deposit intangible assets	50,964	45,317
Alternative minimum tax carryforward	369,002	160,281
Unrealized loss on available-for-sale securities	-	443,508
Other	511,630	506,568
Deferred tax assets	3,013,118	2,534,831
Deferred tax liabilities:		
Premises and equipment	707,097	126,490
Goodwill	405,160	354,515
Deferred loan fees	150,455	159,697
Partnerships	122,917	86,037
Unrealized gain on available-for-sale securities	138,094	-
Deferred tax liabilities	1,523,723	726,739
Net deferred tax assets	$ 1,489,395	$ 1,808,092

11. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2009 and 2008, 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:

	2009		2008	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,219,366	34.0 %	$ 1,637,943	34.0 %
Tax-exempt interest	(859,677)	(24.0)	(791,125)	(16.4)
Life insurance income	(88,405)	(2.5)	(71,605)	(1.5)
Other	101,663	2.9	104,477	2.2
Actual tax expense and effective rate	$ 372,947	10.4 %	$ 879,690	18.3 %

U.S. generally accepted accounting principles prescribe 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.

12. EMPLOYEE BENEFITS

Savings Plan

The Bank maintains a qualified 401(k) salary reduction and profit sharing plan that covers substantially all employees. Under the plan, employees make voluntary, pretax contributions to their accounts, and the Bank contributions to the plan are at the discretion of the Board of Directors. Contributions by the Bank charged to operations were $192,277 and $196,900 for the years ended December 31, 2009 and 2008, respectively. The fair value of plan assets includes $755,118 and $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 2009 and 2008 were $725,571 and $751,590, respectively, and are reported as "other liabilities" on the Consolidated Balance Sheet. Expenses (income) related to this plan were $54,234 and $(54,512) for December 31, 2009 and 2008, respectively.

12. EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan

The Company maintains a Restricted Stock Plan (the "Plan"). Employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance related requirements. Awards granted under the Plan are in the form of the Company's common stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 12,000 shares of the Company's common stock. The Plan assists the Company in attracting, retaining and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. Compensation expense recognized related to the vesting of shares was $119,116 and $71,834 for the years ended December 31, 2009 and 2008, respectively.

The following is a summary of the status of the Company's restricted stock as of December 31, 2009, and changes therein during the year then ended:

	Number of Shares of Restricted Stock		Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2009	2,669	$	79.39
Granted	4,916		57.81
Vested	(1,402)		(67.72)
Forfeited	(13)		(81.25)
Nonvested at December 31, 2009	6,170	$	64.85

Stock Option Plan

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

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

	Number of Options		Weighted-average Exercise Price
Outstanding, January 1, 2009	53,860	$	88.40
Granted	11,500		52.65
Exercised	-		-
Forfeited	-		-
Outstanding, December 31, 2009	65,360	$	82.11
Exercisable at year-end	49,111	$	89.52

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table summarizes the characteristics of stock options at December 31, 2009:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
01/27/00	$ 76.00	2,947	0.08	$ 76.00	2,947	$ 76.00
01/11/01	79.00	3,778	1.03	79.00	3,778	79.00
01/24/02	90.00	5,530	2.06	90.00	5,530	90.00
02/21/02	91.00	8	2.14	91.00	8	91.00
02/27/03	90.00	4,359	3.16	90.00	4,359	90.00
08/01/03	90.00	1,110	3.58	90.00	1,110	90.00
09/02/03	90.00	2,222	3.67	90.00	2,222	90.00
12/29/03	91.25	3,168	4.00	91.25	3,168	91.25
03/16/04	91.25	3,700	4.21	91.25	3,700	91.25
05/26/04	94.00	734	4.40	94.00	734	94.00
06/30/04	96.75	2,618	4.50	96.75	2,618	96.75
01/05/05	93.00	8,427	5.01	93.00	8,427	93.00
02/03/05	93.00	380	5.09	93.00	380	93.00
02/09/05	93.00	26	5.11	93.00	26	93.00
02/10/05	95.00	100	5.11	95.00	100	95.00
02/24/05	96.00	42	5.16	96.00	42	96.00
03/29/05	96.00	3	5.24	96.00	3	96.00
04/26/05	96.00	441	5.32	96.00	441	96.00
07/08/05	96.00	333	5.52	96.00	333	96.00
12/08/05	95.00	1,421	5.94	95.00	1,421	95.00
12/10/05	95.25	3	5.94	95.25	3	95.25
12/16/05	95.00	150	5.96	95.00	150	95.00
12/22/05	95.00	4,440	5.98	95.00	4,440	95.00
01/25/07	88.00	545	7.07	88.00	363	88.00
02/23/07	90.00	525	7.15	90.00	525	90.00
01/31/08	76.35	6,850	8.08	76.35	2,283	76.35
03/26/09	51.00	10,500	9.23	51.00	-	51.00
10/27/09	70.00	1,000	9.82	70.00	-	70.00
		65,360			49,111	

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:

	2009	2008
Commitments to extend credit	$ 98,495,927	$ 86,622,928
Standby letters of credit	6,396,525	4,968,420
Total	$ 104,892,452	$ 91,591,348

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, 2009, are as follows:

		Minimum Lease Payment
2010	$	262,893
2011		229,224
2012		229,224
2013		229,224
2014		229,224
Thereafter		4,251,320
Total	$	5,431,109

Rent expense under leases for each of the years ended December 31, 2009 and 2008, was $287,666 and $207,876, 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, 2009 and 2008, was $1,226,000 and $1,421,000, 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 2010, without prior approval of the Comptroller, is approximately $5.7 million plus net profits retained in 2010 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, 2009 and 2008, 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.

	2009		2008	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 46,618,895	11.26 %	$ 39,950,259	10.40 %
For Capital Adequacy Purposes	33,109,464	8.00	30,730,476	8.00
To Be Well Capitalized	41,386,829	10.00	38,416,845	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 38,330,004	9.26 %	$ 36,455,506	9.49 %
For Capital Adequacy Purposes	16,554,732	4.00	15,366,738	4.00
To Be Well Capitalized	24,832,098	6.00	23,050,107	6.00
Tier I Capital (to Average Assets)				
Actual	$ 38,330,004	7.37 %	$ 36,455,506	7.58 %
For Capital Adequacy Purposes	20,812,578	4.00	19,235,026	4.00
To Be Well Capitalized	26,015,723	5.00	24,043,783	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.

	2009		2008	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 45,822,674	11.17 %	$ 41,060,760	10.82 %
For Capital Adequacy Purposes	32,809,702	8.00	30,349,036	8.00
To Be Well Capitalized	41,012,127	10.00	37,936,297	10.00
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 40,582,917	9.90 %	$ 37,566,007	9.90 %
For Capital Adequacy Purposes	16,404,851	4.00	15,174,519	4.00
To Be Well Capitalized	24,607,276	6.00	22,761,778	6.00
Tier I Capital (to Average Assets)				
Actual	$ 40,582,917	7.86 %	$ 37,566,007	7.96 %
For Capital Adequacy Purposes	20,651,697	4.00	18,885,189	4.00
To Be Well Capitalized	25,814,621	5.00	23,606,487	5.00

16. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by U.S. generally accepted accounting principles are as follows:

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

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

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

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

16. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the assets reported on the balance sheet at their fair value as of December 31, 2009 and 2008, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2009			
	Level I	Level II	Level III	Total
Assets:				
U.S. government agency securities	$ -	$ 21,011,956	$ -	$ 21,011,956
Obligations of state and political subdivisions	-	33,972,089	-	33,972,089
Corporate securities	-	1,542,224	1,198,313	2,740,537
Mortgage-backed securities	-	18,242,006	-	18,242,006
Total debt securities	-	74,768,275	1,198,313	75,966,588
Equity securities	2,111,453	-	-	2,111,453
Mortgage servicing rights	-	-	262,387	262,387
Total	$ 2,111,453	$ 74,768,275	$ 1,460,700	$ 78,340,428

	December 31, 2008			
	Level I	Level II	Level III	Total
Assets:				
U.S. government agency securities	$ -	$ 6,956,411	$ -	$ 6,956,411
Obligations of state and political subdivisions	-	44,535,411	-	44,535,411
Corporate securities	-	9,332,521	3,632,919	12,965,440
Mortgage-backed securities	-	16,541,779	-	16,541,779
Total debt securities	-	77,366,122	3,632,919	80,999,041
Equity securities	1,949,600	-	-	1,949,600
Trading securities:				-
U.S. government agency securities	-	3,030,620	-	3,030,620
Corporate securities	-	1,906,519	419,551	2,326,070
Mortgage servicing rights	-	-	349,187	349,187
Total	$ 1,949,600	$ 82,303,261	$ 4,401,657	$ 88,654,518

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, 2009 and 2008.

16. FAIR VALUE MEASUREMENTS (Continued)

	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, January 1, 2009	3,632,919	419,551	349,187	4,401,657
Total gains or losses (realized/unrealized) included in earnings	(395,319)	(6,740)	(137,927)	(539,986)
Purchases (sales)	(2,039,287)	(412,811)	51,127	(2,400,971)
Balance, December 31, 2009	$ 1,198,313	$ -	$ 262,387	$ 1,460,700

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, 2009 and 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.

	December 31, 2009			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ 6,224,146	$ -	$ 6,224,146

	December 31, 2008			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ 1,876,157	$ -	$ 1,876,157

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 37,197,461	$ 37,197,461	$ 14,621,417	$ 14,621,417
Certificates of deposit	3,558,204	3,558,204	4,946,828	4,946,828
Investment securities:				
Held for trading	-	-	5,356,690	5,356,690
Available for sale	78,078,041	78,078,041	82,948,641	82,948,641
Loans held for sale	573,990	573,990	399,318	399,318
Net loans	367,823,523	368,173,535	333,433,585	338,398,408
Regulatory stock	4,144,300	4,144,300	4,144,300	4,144,300
Bank-owned life insurance	11,270,777	11,270,777	10,867,431	10,867,431
Accrued interest receivable	2,094,465	2,094,465	2,335,382	2,335,382
Mortgage servicing rights	262,387	262,387	349,187	349,187
Financial liabilities:				
Deposits	$ 407,721,037	$ 409,204,773	$ 352,728,943	$ 355,153,158
Short-term borrowings	4,627,902	4,627,902	5,954,014	5,954,014
Other borrowings	76,923,802	79,236,275	81,415,908	84,679,713
Accrued interest payable	1,168,356	1,168,356	1,451,650	1,451,650

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

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

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

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

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

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 and Available for Sale), 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.

Bank-Owned Life Insurance

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

Mortgage Servicing Rights

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

Deposits

The fair values of certificates of deposit 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.

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.

Other Borrowed Funds

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.

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Commitments to Extend Credit

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

18. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 19, 2010, the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

19. PARENT COMPANY

Following are condensed financial statements for the Company:

CONDENSED BALANCE SHEET

	December 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 132,057	$ 98,873
Investment securities	2,037,413	1,869,028
Investment in subsidiaries	42,527,958	38,648,655
Other assets	1,852,751	1,909,487
TOTAL ASSETS	$ 46,550,179	$ 42,526,043
Borrowings	$ 12,306,464	$ 11,111,678
OTHER LIABILITIES	182,008	112,807
TOTAL LIABILITIES	12,488,472	11,224,485
STOCKHOLDERS' EQUITY	34,061,707	31,301,558
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 46,550,179	$ 42,526,043

CONDENSED STATEMENT OF INCOME

	Year ended December 31, 2009	Year ended December 31, 2008
INCOME		
Dividends from subsidiaries	$ 859,000	$ 1,716,000
Interest and dividend income	66,318	131,700
Investment securities losses, net	(163,351)	(71,208)
Other income (loss)	52,890	59,067
Total income	814,857	1,835,559
EXPENSES		
Interest expense	646,897	601,768
Other expenses	229,708	175,368
Total expenses	876,605	777,136
Income (loss) before tax benefit and equity in undistributed net income of subsidiaries	(61,748)	1,058,423
Income tax benefit	(323,062)	(242,245)
Equity in undistributed net income of subsidiaries	2,952,109	2,637,123
NET INCOME	$ 3,213,423	$ 3,937,791

19. PARENT COMPANY (Continued)

CONDENSED STATEMENT OF CASH FLOWS

	Year ended December 31, 2009	2008
OPERATING ACTIVITIES		
Net income	$ 3,213,423	$ 3,937,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(2,952,109)	(2,637,123)
Investment securities losses, net	163,351	71,208
Other	167,007	30,491
Net cash provided by operating activities	591,672	1,402,367
INVESTING ACTIVITIES		
Investment securities:		
Proceeds from sales	-	360,563
Purchases	(58,535)	(278,605)
Proceeds from maturities	-	250,000
Net cash provided by (used for) investing activities	(58,535)	331,958
FINANCING ACTIVITIES		
Proceeds from other borrowings	6,000,000	480,281
Repayments of other borrowings	(4,805,214)	(495,860)
Purchase of treasury stock	(48,120)	(90,464)
Proceeds from sale of treasury stock	74,956	146,042
Exercise of stock options	-	10,937
Cash dividends	(1,721,575)	(1,713,474)
Net cash used for financing activities	(499,953)	(1,662,538)
Increase in cash	33,184	71,787
CASH AT BEGINNING OF YEAR	98,873	27,086
CASH AT END OF YEAR	$ 132,057	$ 98,873

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

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Richard L. Kalin, Member
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Michael J. Krentzman, Member
Ashley H. Kranich, Member
Alison B. Kurtz, Member
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Lynn A. Thompson, Vice President, Commercial Lines
Richard C. Calkins, Member
William L. Dancy, Member
Alison B. Kurtz, Member
James J. Lakso, Member
Robert S. McMinn, Member

BOARD OF DIRECTORS OF KISH TRAVEL, INC.

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James J. Lakso, Member

EXECUTIVE OFFICERS

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Michael F. Allen, Executive Vice President, Market Manager, Senior Lending Officer for Centre County
Robert S. McMinn, Executive Vice President, Financial Services, General Council & Senior Trust Officer
Gerhard Royer, Executive Vice President, Chief Credit Officer
J. Bradley Scovill, Executive Vice President, Chief Financial Officer
James L. Shilling, Jr., Executive Vice President, Market Manager, Senior Lending Officer for Mifflin County

SENIOR OFFICERS

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Kathleen M. Boop, Vice President, Personal Lines Insurance 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
Ann K. Guss, Vice President, Branch Manager
Gregory T. Hayes, Vice President, Business Banking Manager
Andrew J. Horwitz, JD, CFP®, Vice President, Kish Financial Solutions
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
Suzanne M. White, Vice President, Human Resources
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
Kimberly A. Bubb, Business Service Support 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
Melissa K. Royer, Assistant Vice President, Branch Operations Manager, Product Development
Glenn E. Snyder, Jr., Facilities Manager
Frances H. Stevenson, Assistant Vice President, Trust Department Manager
Stephanie L. Strickler, Marketing Officer
N. Robert Sunday, III, Assistant Vice President, Compliance and Loan Review Officer
Kayelene Sunderland, Assistant Vice President, Trust Officer

KISH BANK EMPLOYEES

Tammy S. Anna, Customer Service Teller
Barry L. Bargo, Courier/Mail Clerk
Katie A. Bates, Personal Banker
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
Denise R. Brotemarkle, Mortgage Administration Specialist
Arlene M. Byler, Receptionist
Ashley A. Clark, Customer Service Teller
Brenda Collins, Mortgage Administration Specialist

Kristi L. Cramer, Customer Service Teller

Lindsey M. Cramer, Customer Service Teller

Richard D. Crider, ALCO and Reporting Manager

Diane M. Crossgrove, Assistant Branch Manager

Jason M. Cunningham, Credit Analyst

Kati E. Deans, **Regional** Customer Service Teller

Peggy J. Dearing, Credit Administration Specialist

Oksana F. DeArment, Executive Assistant

Jannifer N. Diehl, Senior Credit Administration Specialist

Mary S. Dietz, Collections Manager

Heather L. Dubbs, Business Banking Specialist

Brandi M. Dufford, Customer Service Teller

Beverly J. Eichhorn, Accounting Specialist

Kathy D. Fisher, Branch Service Support Specialist

Keatyn M. Fletcher, Loan Operations Specialist

Sandra G. Fogleman, Assistant Branch Manager

Jodie M. Gibboney, Personal Banker

Elizabeth A. Gibson, Regional Customer Service Teller

Karen S. Gilbert, Business Banking Specialist

Beth N. Metz Gilmore, Trust Operations Specialist and Human Resources Assistant

Janice Y. Glick, Personal Banking Specialist

Candee A. Gutshall, Branch Operations Specialist

Sharon A. Hall, Personal Banker

Lisa J. Hamler, Customer Service Teller

Jeffrey T. Hayes, Financial Advisor

Ashley L. Henry, Profitability Specialist

R. Michael Henry, Technical Support Specialist

Sallie M. Hicks, Branch Operations Specialist

Donald F. Hindman, Courier/Mail Clerk

Christina A. Hinkle, Business Banking Specialist

Lara A. Hoffman, Assistant Branch Manager

Michael B. Houser, Network Administrator

Paula J. Kauffman, Senior Loan Operations Specialist

Michael S. Kearns, Data Analyst

Brittany E. Kern, Business Service Support Specialist

Darla S. King, Branch Service Support Specialist

Abbey N. Knepp, Customer Service Teller

Carolyn M. Leacy, Customer Service Teller

Lori Ann Legradi, Customer Service Teller

Carmella J. Long, Personal Banker

Jeremy G. Mattern, Credit Analyst

Jennifer L. McCracken, Customer Service Teller

Tina K. McCurdy, Branch Operations Specialist

Kathryn A. McKnight, Loan Operations Specialist

Kristie R. McKnight, Business Banker Trainee

Mary A. Miller, Executive Assistant

Joanna M. Minium, Credit Administration Specialist

Jennifer A. Mitchell, Mortgage Administration Specialist

Tina L. Nace, Senior Credit Administration Specialist

Antonietta M. Naimo, Personal Banker

Carol A. Noland, Payroll and Benefits Administrator

Sandra P. Norris, Mortgage Originator

Melissa A. Paladino, Branch Service Support Specialist

Constance F. Palm, Branch Manager

Anne E. Parks, Customer Service Teller

Susan K. Peachey, Branch Operations Specialist

Danielle A. Peck, Loan Operations Specialist

David G. Pomeroy, Personal Banker

Susan C. Rainey, Customer Service Teller

Jesse L. Reed, Branch Operations Specialist

Amber N. Resto, Personal Banker

Denise M. Rothrock, Assistant Branch Manager

Megan D. Royer, Investment Services Assistant

Billie A. Rupert, Investment Services Assistant

Krista M. Rupert, Customer Service Teller

Leslie J. Sauer, Accounting Specialist

Sharon Lynn Sawtelle, Customer Service Teller

Tara Lynn Scyoc, Customer Service Teller

Melissa A. Sellers, Business Banking Specialist

Tricia A. Shanabruch, Customer Service Teller

April L. Shawver, Customer Service Teller

Marina V. Shvenke, Personal Banker

Paula A. Stimeling, Loan Operations 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

Patricia A. Trinclisti, Customer Service Teller

Robin L. Ulrich, 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

Crystal D. Yoder, Customer Service Teller

Delores K. Yoder, Customer Service Teller

Lisa M. Yoder, Branch Service Support Specialist

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, Vice President, Personal Lines Insurance Manager

Duane J. Coy, Commercial Lines Insurance Specialist

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, Commercial Lines

J. Anthony Willard, Commercial Lines Insurance Specialist

Jeffrey D. Wilson, Chief Executive Officer, Insurance Services

KISH TRAVEL EMPLOYEES

Sandra K. Berardis, Travel Officer

Jolene K. Byler, Assistant Manager, Travel Consultant

Donna R. Feicke, Travel Office Assistant

Sandra L. Hunley, Lead Travel Agent

D. Michael Whalen, General Manager

KISH BANCORP

expect more