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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orbisonia Community Bancorp, Inc.
Orbisonia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 to the financial statements, Orbisonia Community Bancorp, Inc. changed its method of accounting for split-dollar post retirement benefits in 2008 as required by provisions of EITF 06-04.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 6, 2009

ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

ASSETS	2008	2007
Cash and due from banks	\$ 7,565,638	\$ 6,360,235
Federal funds sold	0	2,833,000
Investment securities available for sale	9,601,993	8,988,576
Federal Home Loan Bank and Atlantic Central Banker's Bank stock	946,200	703,500
Loans, net of unearned discount and allowance for possible loan losses	196,064,146	176,998,879
Bank building, equipment, furniture and fixtures, net	5,285,107	5,427,319
Accrued interest receivable	670,438	638,308
Cash surrender value of life insurance	2,770,934	2,670,166
Other assets	438,015	446,217
Total assets	<u>\$ 223,342,471</u>	<u>\$ 205,066,200</u>
 LIABILITIES		
Deposits		
Demand deposits	\$ 10,659,444	\$ 10,605,607
Savings deposits	49,402,058	44,620,875
Time certificates	136,167,424	129,545,325
Other time deposits	424,371	393,744
Total deposits	<u>196,653,297</u>	<u>185,165,551</u>
Liability for borrowed funds	3,014,878	36,071
Accrued interest payable and other liabilities	3,042,072	398,181
Total liabilities	<u>202,710,247</u>	<u>185,599,803</u>
 STOCKHOLDERS' EQUITY		
Capital stock, voting common, par value \$ 0.25; authorized and issued 800,000 shares; outstanding 773,885 shares - 2008; 774,896 shares - 2007	200,000	200,000
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	18,835,798	17,668,096
Accumulated other comprehensive income	517,055	479,062
Less cost of treasury stock (26,115 shares - 2008; 25,104 shares - 2007)	(920,629)	(880,761)
Total stockholders' equity	<u>20,632,224</u>	<u>19,466,397</u>
Total liabilities and stockholders' equity	<u>\$ 223,342,471</u>	<u>\$ 205,066,200</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2008 and 2007

	2008	2007
Interest and Dividend Income		
Interest and fees on loans	\$ 13,495,499	\$ 12,741,903
Interest and dividends on investment securities:		
U.S. Treasury securities	20,220	20,220
Obligations of other U.S. Government agencies	237,047	260,876
Obligations of states and political subdivisions	66,834	47,850
Corporate stocks and bonds	55,249	77,273
Interest on federal funds sold	117,697	262,496
	<u>13,992,546</u>	<u>13,410,618</u>
Interest Expense		
Interest on borrowed funds	12,974	2,874
Interest on deposits	5,747,236	6,001,594
Net interest income	8,232,336	7,406,150
Provision for Loan Losses	420,000	420,000
	<u>7,812,336</u>	<u>6,986,150</u>
Other Income		
Service charges on deposit accounts	481,365	516,082
Other service charges, collection and exchange charges, commissions and fees	520,177	419,272
Increase in cash surrender value of life insurance	121,048	115,747
Other income	38,612	41,195
	<u>1,161,202</u>	<u>1,092,296</u>
Other Expenses		
Salaries and wages	2,737,463	2,458,391
Pensions and other employee benefits	810,022	614,730
Net occupancy expense of bank premises (including depreciation of \$ 163,110 - 2008 and \$ 153,893 - 2007)	358,753	348,534
Furniture and equipment expenses (including depreciation of \$ 338,431 - 2008 and \$ 300,685 - 2007)	499,580	469,272
Other operating expenses	1,729,714	1,497,331
	<u>6,135,532</u>	<u>5,388,258</u>
	2,838,006	2,690,188
Applicable income taxes	874,010	800,813
	<u>\$ 1,963,996</u>	<u>\$ 1,889,375</u>
Net income		
Earnings per share of common stock:		
Net income	\$ 2.54	\$ 2.41
Weighted average shares outstanding	774,430	782,675

The Notes to Consolidated Financial Statements are an integral part of these statements.

ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2006	\$ 200,000	\$ 2,000,000	\$ 16,287,215	\$ 406,649	(\$ 463,161)	\$ 18,430,703
Comprehensive income:						
Net income			1,889,375			1,889,375
Unrealized (loss) on investment securities available-for-sale (net of tax effect of \$ 37,303)				72,413		<u>72,413</u>
Total comprehensive income						<u>1,961,788</u>
Cash dividends declared on common stock (\$ 0.66 per share)			(508,494)			(508,494)
Purchase of treasury stock (11,600 shares)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	(\$ 417,600)	(\$ 417,600)
Balance December 31, 2007	200,000	2,000,000	17,668,096	479,062	(\$ 880,761)	19,466,397
Comprehensive income:						
Net income			1,963,996			1,963,996
Unrealized gain on investment securities available-for-sale (net of tax effect of \$ 19,572)				37,993		<u>37,993</u>
Total comprehensive income						<u>2,001,989</u>
Cumulative effect adjustment for change in accounting principle to apply EITF 06-04 for split-dollar post retirement benefits			(215,556)			(215,556)
Cash dividends declared on common stock (\$ 0.75 per share)			(580,738)			(580,738)
Purchase of treasury stock (1,011 shares)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	(\$ 39,868)	(\$ 39,868)
Balance December 31, 2008	<u>\$ 200,000</u>	<u>\$ 2,000,000</u>	<u>\$ 18,835,798</u>	<u>\$ 517,055</u>	<u>(\$ 920,629)</u>	<u>\$ 20,632,224</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Net income	\$ 1,963,996	\$ 1,889,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	501,541	454,578
Provision for loan losses	420,000	420,000
Deferred income taxes	26,907	(118,995)
Loss on disposal of bank premises and equipment	0	18,394
(Increase) in cash surrender value of life insurance	(100,768)	(97,124)
(Increase) decrease in accrued interest receivable	(32,130)	44,720
(Increase) in other assets	(38,277)	(39,879)
Increase (decrease) in accrued interest payable and other liabilities	(71,665)	26,862
Net cash provided by operating activities	<u>2,669,604</u>	<u>2,597,931</u>
Cash Flows From Investing Activities:		
Proceeds from maturities of available for sale securities	9,390,633	3,670,000
Purchases of available for sale securities	(7,446,485)	(4,022,191)
(Redemption) purchase of restricted bank stock	(242,700)	(30,900)
Net (increase) in loans	(19,485,267)	(10,223,783)
Purchases of bank premises and equipment	(359,329)	(758,574)
Net cash (used) by investing activities	<u>(18,143,148)</u>	<u>(11,365,448)</u>
Cash Flows From Financing Activities:		
Net increase in deposits	11,487,746	11,836,924
Payments on long-term borrowings	(21,193)	(19,969)
Federal Home Loan Bank borrowings	3,000,000	0
Purchase of treasury stock	(39,868)	(417,600)
Dividends paid	(580,738)	(508,494)
Net cash provided by financing activities	<u>13,845,947</u>	<u>10,890,861</u>
Net increase (decrease) in cash and cash equivalents	(1,627,597)	2,123,344
Cash and cash equivalents, beginning balance	<u>9,193,235</u>	<u>7,069,891</u>
Cash and cash equivalents, ending balance	<u>\$ 7,565,638</u>	<u>\$ 9,193,235</u>
Cash and cash equivalents consists of:		
Cash and due from banks	\$ 7,565,638	\$ 6,360,235
Federal funds sold	0	2,833,000
	<u>\$ 7,565,638</u>	<u>\$ 9,193,235</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2008 and 2007

	2008	2007
Supplemental Disclosure of Cash Flows Information:		
Cash paid during the year for:		
Interest	\$ 5,784,186	\$ 5,992,127
Income taxes	845,480	904,059
Supplemental Schedule of Noncash Investing and Financing Activities:		
Net unrealized gain (loss) on investment securities available-for-sale (net of tax effects)	\$ 37,993	\$ 72,413
Other real estate acquired in settlement of loans	6,000	126,916

The Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of Operations

Orbisonia Community Bancorp, Inc.'s primary activity consists of owning and supervising its subsidiary, Community State Bank of Orbisonia, which is engaged in providing banking and bank related services in South Central Pennsylvania, principally Fulton, Huntingdon and Juniata Counties. Its six offices are located in Orbisonia, Waterfall, Mount Union, Smithfield, Saxton, and Three Springs, Pennsylvania.

Principles of Consolidation and Basis of Accounting

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Community State Bank of Orbisonia. All significant intercompany transactions and accounts have been eliminated. The Corporation uses the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for losses on loans and foreclosed real estate. Such agencies may require the Corporation to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Corporation has defined cash and cash equivalents as those amounts included in the balance sheet captions "cash and due from banks" and "federal funds sold". As permitted by generally accepted accounting principles, the Corporation has elected to present the net increase or decrease in deposits in banks, loans and deposits in the Statements of Cash Flows.

Investment Securities

In accordance with generally accepted accounting principles, the Corporation may segregate its investment portfolio into three specific categories: "securities held to maturity," "trading securities" and "securities available for sale." Securities held to maturity are to be accounted for at their amortized cost; securities classified as trading securities are to be accounted for at their

Note 1. Significant Accounting Policies (Continued)

Investment Securities (Continued)

current market value with unrealized gains and losses on such securities included in current period earnings; and securities classified as available for sale are to be accounted for at their current market value with unrealized gains and losses on such securities excluded from earnings and reported as a net amount in other comprehensive income.

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Corporation has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and carried at amortized historical cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale and carried at fair value. Securities held for indefinite periods of time include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and resultant prepayment risk changes.

The Corporation had no investment securities classified as "Held-to-Maturity" or "Trading Securities" during 2008 or 2007.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through the Corporation's annual operations.

Federal Home Loan Bank Stock and Atlantic Central Banker's Bank Stock

These investments are carried at cost. The Corporation is required to maintain minimum investment balances in Federal Home Loan Bank and Atlantic Central Banker's Bank stocks. These stocks are not actively traded and therefore have no readily determinable market value.

Loans and Allowance for Possible Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned interest and an allowance for loan losses. Unearned interest on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

The allowance for loan losses is established through a provision for loan losses charged to expenses, and is reduced by charge-offs, net of recoveries. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Note 1. Significant Accounting Policies (Continued)

Nonaccrual/Impaired Loans

The accrual of interest income on loans ceases when principal or interest is past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if, in the opinion of management, full collection is unlikely. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received either are applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest income on such loans is recognized only to the extent of interest payments received.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value, less estimated cost to sell. Any write-downs based on the asset's fair value are charged to the allowance for loan losses. If an increase in basis results, it is classified as non-interest income unless there has been a prior charge-off in which case a recovery to the allowance for loan losses is recorded. Legal fees and other costs related to foreclosure proceedings are expensed as they are incurred. At December 31, 2008 the Bank had foreclosed real estate of \$ 6,000, which is included in other assets on the balance sheet. At December 31, 2007, the Bank had no foreclosed real estate.

Bank Building, Equipment, Furniture and Fixtures and Depreciation

Bank building, equipment, furniture and fixtures are carried at cost less accumulated depreciation. Expenditures for replacements are capitalized and the replaced items are retired. Maintenance and repairs are charged to operations. Depreciation is computed based on straight-line and accelerated methods over the estimated useful lives of the related assets as follows:

	Years
Bank building	25 - 40
Equipment, furniture and fixtures	3 -10
Land improvements	15-20

Earnings Per Share

Earnings per common share were computed based upon weighted average shares of common stock outstanding of 774,430 and 782,675 for 2008 and 2007, respectively.

Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting, deferred income taxes are provided in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and 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. See Note 12 for further details.

Note 1. Significant Accounting Policies (Continued)

Advertising

The Corporation follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 65,853 and \$ 59,232 for the years ended December 31, 2008 and 2007, respectively.

Fair Values of Financial Instruments

Generally accepted accounting principles require disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the corporation.

The following methods and assumptions were used by the Corporation in estimating fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents. The carrying amounts of cash and short-term instruments approximate their fair value.

Securities Available for Sale. Fair values for investment securities are based on quoted market prices.

Loans Receivable. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities. The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit and fixed-term money market accounts approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit and IRA's are estimated using a discounted cash flow calculation that applies interest rates currently being offered to a schedule of aggregated expected monthly maturities on time deposits.

Liabilities for Borrowed Funds. The fair value of the Corporation's long-term debt is estimated using a discounted cash flow analysis based on the Corporation's current incremental borrowing rate for similar types of borrowing arrangements.

Accrued Interest. The carrying amounts of accrued interest approximate their fair values.

Off-Balance-Sheet Instruments. The Corporation generally does not charge commitment fees. Fees for standby letters of credit and other off-balance-sheet instruments are not significant.

Note 1. Significant Accounting Policies (Continued)

Comprehensive Income

Comprehensive income is defined as the change in equity from transactions and other events from nonowner sources. It includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net income and certain elements of “other comprehensive income” such as foreign currency transactions; accounting for futures contracts; employer’s accounting for pensions; and accounting for certain investments in debt and equity securities.

The Corporation has elected to report its comprehensive income in the statement of changes in stockholders’ equity. The only element of “other comprehensive income” that the Corporation has is the unrealized gains or losses on available for sale securities.

The components of other comprehensive income and related tax effects are as follows:

	2008	2007
Unrealized holding gains (losses) on available-for-sale securities	\$ 57,565	\$ 109,716
Tax effect	(19,572)	(37,303)
Net-of-tax amount	<u>\$ 37,993</u>	<u>\$ 72,413</u>

Fair Value Measurements

SFAS 157, *Fair Value Measurements*, (SFAS 157) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, establishes a three-level valuation hierarchy for disclosure of fair value measurement and expands disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The definition of fair value is clarified by SFAS No. 157 to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The three levels are defined as follows:

- ⇒ **Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- ⇒ **Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.
- ⇒ **Level 3:** The valuation methodology is derived from model-based techniques in which at least one significant input is unobservable to the fair value measurement and based on the corporation’s own assumptions about market participants’ assumptions.

Note 1. Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for instruments measured on a recurring basis at estimated fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, securities are classified within level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. All securities held by the holding company are considered to be Level 1 securities. All others are considered to be Level 2.

Loans Held for Sale

Loans held for sale are required to be measured at the lower of cost or fair value. Under SFAS No. 157, market value is to represent fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value. Loans held for sale are included in total loans on the balance sheet and are recorded at cost.

Impaired Loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. The fair value component in its valuation follows the provisions of SFAS No. 157.

The Corporation had no estimated fair value liabilities at December 31, 2008. A summary of assets at December 31, 2008 measured at estimated fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total Fair Value Measurements
Securities available for sale	\$ 689,130	\$ 8,912,863	\$ 0	\$ 9,601,993

Note 2. Compensating Balance Arrangements

The required deposit balance at Atlantic Central Banker's Bank was \$ 785,000 at December 31, 2007. These balances were maintained to cover processing costs and service charges. At December 31, 2008 there is no required balance at Atlantic Central Banker's Bank.

Note 3. Investment Securities

The amortized cost and fair values of investment securities available for sale at December 31 were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
2008				
U. S. Treasury securities	\$ 499	\$ 72	\$ 0	\$ 571
Obligations of other U.S. government agencies and corporations	6,000	28	0	6,028
Obligations of state and political subdivisions	2,297	22	5	2,314
Equity securities	23	666	0	689
	<u>\$ 8,819</u>	<u>\$ 788</u>	<u>\$ 5</u>	<u>\$ 9,602</u>
2007				
U. S. Treasury securities	\$ 499	\$ 10	\$ 0	\$ 509
Obligations of other U.S. government agencies and corporations	5,900	4	16	5,888
Obligations of state and political subdivisions	1,841	9	2	1,848
Equity securities	23	721	0	744
	<u>\$ 8,263</u>	<u>\$ 744</u>	<u>\$ 18</u>	<u>\$ 8,989</u>

The amortized cost and fair values of investment securities available for sale at December 31, 2008 by contractual maturity are shown below. Contractual maturities will differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
(In Thousands)		
Due in one year or less	\$ 300	\$ 303
Due after one year through five years	8,385	8,497
Due after five years through ten years	111	113
	<u>8,796</u>	<u>8,913</u>
Equity securities	23	689
	<u>\$ 8,819</u>	<u>\$ 9,602</u>

There were no sales of available for sale securities in 2008 or 2007.

Note 3. Investment Securities (Continued)

The following table shows the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at December 31:

Description	2008 (In Thousands)					
	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. Treasury Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligations of other U. S. government agencies and corporations	250	0	0	0	250	0
Obligations of state and political subdivisions	662	(5)	0	0	662	(5)
Totals	<u>\$ 912</u>	<u>(\$ 5)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 912</u>	<u>(\$ 5)</u>

Description	2007 (In Thousands)					
	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. Treasury Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligations of other U. S. government agencies and corporations	399	(1)	3,985	(15)	4,384	(16)
Obligations of state and political subdivisions	100	(1)	389	(1)	489	(2)
Totals	<u>\$ 499</u>	<u>(\$ 2)</u>	<u>\$ 4,374</u>	<u>(\$ 16)</u>	<u>\$ 4,873</u>	<u>(\$ 18)</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, but management's intent is to hold all investments until maturity unless market, economic or specific investment concerns warrant a sale of securities. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2008, one U. S. Government agencies and four obligations of state and political subdivisions had unrealized losses. At December 31, 2007, eleven U. S. Government agencies and three obligations of state and political subdivisions had unrealized losses. As management has the ability to hold these securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

Investment securities that are pledged to secure public funds and for other purposes as required or permitted by law are as follows:

	2008	2007
Amortized cost	<u>\$ 6,095,124</u>	<u>\$ 7,258,044</u>
Fair value	<u>\$ 6,212,279</u>	<u>\$ 7,133,665</u>

Note 3. Investment Securities (Continued)

The Corporation's investments are exposed to various risks, such as interest rate, market, current and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

In addition, recent economic uncertainty and market events have led to unprecedented volatility in current, commodity, credit and equity markets culminating in failures of some banking and financial services firms and Government intervention to solidify others. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the corporation's portfolio.

Note 4. Loans

Loans consist of the following (in thousands of dollars):

	2008	2007
Real estate loans:		
Secured by farmland	\$ 3,596	\$ 3,874
Secured by residential/commercial properties	160,562	141,981
Loans to finance agricultural production and other loans to farmers	581	878
Commercial and industrial loans	3,235	3,606
Loans to individuals for household, family, or other personal expenditures	29,832	28,223
All other loans	<u>41</u>	<u>104</u>
Total loans	197,847	178,666
Less: Allowance for possible loan losses	<u>1,783</u>	<u>1,667</u>
Net loans	<u>\$ 196,064</u>	<u>\$ 176,999</u>

The aggregate amount of loans to employees, officers and directors was \$ 6,305,977 and \$ 5,654,024 at December 31, 2008 and 2007, respectively.

During 2005, the Corporation began participation in the Federal Home Loan Bank of Pittsburgh's (FHLB) Mortgage Partnership Finance Program. Under this program, certain loans are sold to FHLB, but the Corporation retains the servicing rights to these loans. The outstanding balance of loans sold to FHLB was \$ 108,130 and \$ 814,837 at December 31, 2008 and 2007, respectively. During 2008, most of the loans in this program were refinanced, and only one loan remains in this program at December 31, 2008.

Note 5. Delinquent and Nonaccrual Loans

Loans 90 days or more past due (still accruing interest) and those on nonaccrual status were as follows at December 31 (in thousands):

	90 Days or More Past Due		Nonaccrual Status	
	2008	2007	2008	2007
Commercial loans	\$ 0	\$ 96	\$ 0	\$ 0
Real estate mortgages	70	283	1,261	644
Consumer loans	80	8	10	73
Total	<u>\$ 150</u>	<u>\$ 387</u>	<u>\$ 1,271</u>	<u>\$ 717</u>

The amount of foregone interest on the above nonaccrual loans was \$ 44,503 and \$ 16,207 for 2008 and 2007, respectively.

There were no impaired loans in 2008 or 2007.

Note 6. Concentration of Credit Risk

The Corporation is a multi-faceted banking institution whose primary purpose is to provide entities located within its delineated service community with a variety of credit services. The community it serves consists primarily of the Pennsylvania counties of Huntingdon, the northern half of Fulton and Franklin and parts of Juniata, Perry, Cumberland, Mifflin, Blair and Bedford. Its main office is located in Orbisonia, Pennsylvania with branches located in Mount Union, Waterfall, Saxton, Smithfield, and Three Springs, Pennsylvania. Although the Corporation has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the timber and logging industry.

The following is a summary of loans to the timber and logging industry at December 31:

	Approximate Current Balance	Percent of Equity
2008	\$ 5,457,064	26.5%
2007	5,343,886	27.5%

The Corporation evaluates each customer's creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by the Corporation upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but generally includes equipment and real estate.

The Corporation maintains deposit balances at several correspondent banks, which provide check collection and item processing services to the bank. The balances with these correspondent banks may exceed federally insured limits at times, which management considers to be a normal business risk.

Note 7. Allowance for Possible Loan Losses

Activity in the allowance for possible loan losses for each year was as follows:

	2008	2007
Balance, beginning of year	\$ 1,666,797	\$ 1,431,913
Recoveries credited to allowance	95,626	88,365
Provision for possible loan losses charged to income	<u>420,000</u>	<u>420,000</u>
Total	2,182,423	1,940,278
Losses charged to allowance	<u>399,457</u>	<u>273,481</u>
Balance, end of year	<u>\$ 1,782,966</u>	<u>\$ 1,666,797</u>

Note 8. Bank Building, Equipment, Furniture and Fixtures

Bank building, equipment, furniture and fixtures consisted of the following at December 31:

Description	Cost	Accumulated Depreciation	Depreciated Cost
2008			
Land	\$ 1,198,475	\$ 0	\$ 1,198,475
Bank buildings	5,078,288	1,731,360	3,346,928
Equipment, furniture and fixtures	4,776,131	4,110,669	665,462
Land improvements	<u>198,691</u>	<u>124,449</u>	<u>74,242</u>
	<u>\$ 11,251,585</u>	<u>\$ 5,966,478</u>	<u>\$ 5,285,107</u>
2007			
Land	\$ 1,208,621	\$ 0	\$ 1,208,621
Bank buildings	4,961,592	1,580,558	3,381,034
Equipment, furniture and fixtures	4,524,767	3,772,238	752,529
Land improvements	<u>197,272</u>	<u>112,137</u>	<u>85,135</u>
	<u>\$ 10,892,252</u>	<u>\$ 5,464,933</u>	<u>\$ 5,427,319</u>

In April 2008, the Corporation entered into an agreement to purchase property in McConnellsburg, Pennsylvania for purposes of building a new Bank branch and made a deposit of \$ 11,820 at that time. Approval of the Corporation's plans was received from the Pennsylvania Department of Environmental Protection in December 2008. The total purchase price is \$ 236,400, leaving a balance of \$ 224,580 to be paid in February 2009. Building of the new branch is expected to begin in March 2009.

Note 9. Deposits

Included in savings balances at December 31 were:

	2008	2007
Super NOW accounts	\$ 5,809,765	\$ 5,778,261
Money Market accounts	3,806,395	1,349,593
Interest plus accounts	20,105,898	19,564,079

The balance of time certificates of \$ 100,000 or more at December 31 was:	46,207,354	41,662,471
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Interest expense on time certificates of \$ 100,000 or more was approximately \$ 1,860,515 and \$ 1,766,949 for 2008 and 2007, respectively.

At December 31, 2008, the scheduled maturities of time certificates are as follows:

2009	\$ 67,721,498
2010	25,126,501
2011	23,703,314
2012	9,986,067
2013	9,374,670
Thereafter	<u>255,374</u>
	<u>\$ 136,167,424</u>

The aggregate amount of demand deposit overdrafts reclassified as loan balances was \$ 18,644 and \$ 19,846 at December 31, 2008 and 2007, respectively.

The Corporation accepts deposits of employees, officers and directors of the Corporation and its subsidiary on the same terms, including interest rates, as those prevailing at the time for comparable transactions with unrelated persons. The aggregate dollar amount of deposits of employees, officers and directors totaled \$ 5,758,826 and \$ 6,262,304 at December 31, 2008 and 2007, respectively.

Note 10. Financial Instruments with Off-Balance-Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Note 10. Financial Instruments with Off-Balance-Sheet Risk (Continued)

Financial instruments whose contract amounts represent credit risk at December 31 consist of:

	Contract or Notional Amount	
	2008	2007
Commitments to extend credit	\$ 10,196,622	\$ 13,066,177
Standby letters of credit and financial guarantees written	291,465	355,063
	<u>\$ 10,488,087</u>	<u>\$ 13,421,240</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments when deemed necessary by management.

Note 11. Retirement Plans***Defined Contribution Retirement Plan***

The Corporation has a 401-K profit-sharing plan covering all full-time employees who have attained the age of 18 and have completed twelve months of service. The plan provides for the Corporation to make contributions which will match employee deferrals on a one to one basis up to 3% of employees' eligible compensation. Additional contributions can be made at the discretion of the Board of Directors based on the Corporation's performance. The contributions for the years ended December 31, 2008 and 2007 were \$ 65,534 and \$ 61,865, respectively.

Bank Owned Life Insurance

Beginning in 2003, the Corporation purchased life insurance covering directors and executive officers. The policies were funded with single premium life insurance contracts. The cash surrender value of the life insurance policies is an unrestricted asset of the Corporation, which totaled \$ 2,770,934 and \$ 2,670,166 at December 31, 2008 and 2007, respectively.

Note 12. Federal Income Taxes

The components of federal income tax expense are summarized as follows:

	2008	2007
Current year provision	\$ 847,103	\$ 919,807
Deferred income taxes resulting from differences between financial statement and tax depreciation charges	64,443	(36,756)
Deferred income taxes resulting from differences between financial statement and tax loan loss provision	(37,536)	(82,238)
Applicable income tax	<u>\$ 874,010</u>	<u>\$ 800,813</u>

Federal income taxes were computed after adjusting pretax accounting income for nontaxable income in the amounts of \$ 102,495 and \$ 48,796 for 2008 and 2007, respectively.

A reconciliation of the effective applicable income tax rate to the federal statutory rate is as follows:

	2008	2007
Federal income tax rate	34.0%	34.0%
Reduction resulting from:		
Nontaxable interest income (net of nondeductible interest)	2.0%	3.0%
Tax credit	1.2%	1.2%
Effective income tax rate	<u>30.8%</u>	<u>29.8%</u>

The Corporation has invested in The Potts Family partnership, which provides low income housing for the elderly. The Corporation is a limited partner with a 99% ownership interest, which is accounted for using the equity method. The related low income housing tax credits from this partnership will be approximately \$ 31,675 per year and are scheduled to expire in 2009.

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation and unrealized gains on available for sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, and unrealized losses on available for sale securities. The net deferred tax assets included in other assets in the accompanying consolidated balance sheets include the following components:

	2008	2007
Total deferred tax assets	\$ 501,371	\$ 463,835
Total deferred tax liabilities	(205,148)	(140,705)
Net deferred tax asset	<u>\$ 296,223</u>	<u>\$ 323,130</u>

The Corporation has not recorded a valuation allowance for the deferred tax assets as management feels that it is more likely than not that they will be ultimately realized.

Note 12. Federal Income Taxes (Continued)

Uncertain Tax Positions

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation [FIN] No. 48, *Accounting for Uncertainty in Income Taxes*. When FIN 48 is implemented, the Corporation will utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position [FSP] FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which deferred the implementation of the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Corporation has not implemented those provisions in the 2008 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Corporation continues to utilize its prior policy of accounting for these positions. A liability for taxes is recorded when it is probable that the liability has been incurred and the amount of the liability can be reasonably estimated. If a tax liability is probable, but cannot be reasonably estimated, or it is reasonably possible that a tax liability has been incurred, disclosure is required. Using that guidance, as of December 31, 2008, the Corporation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Note 13. Liability For Borrowed Funds

During 2008, the Corporation entered into a \$ 3,000,000 loan with the Federal Home Loan Bank of Pittsburgh that has a fixed rate of 2.09% and matures February 2009.

In 1994 the Corporation purchased a property in Huntingdon, Pennsylvania which was used for the site of the Smithfield branch. The purchase price of the property was \$ 250,000. The Corporation paid \$ 25,000 in cash and issued a note payable to the sellers for \$ 225,000. The note, which bears interest fixed at 6%, is payable in monthly installments over 15 years. The balance outstanding on the mortgage at December 31 was \$ 14,878 and \$ 36,071 for 2008 and 2007, respectively.

Future principal payments required are as follows:

2009	<u>\$ 14,878</u>
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In addition, the Corporation has available advances from Federal Home Loan Bank of Pittsburgh. The maximum borrowing capacity at December 31, 2008 is approximately \$ 103,671,000. Collateral consists of certain securities, loans, and other assets approximating \$ 203,696,000 at December 31, 2008.

Note 14. Fair Value of Financial Instruments

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

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	\$ 7,565,638	\$ 7,565,638	\$ 6,360,235	\$ 6,360,235
Federal funds sold	0	0	2,833,000	2,833,000
Securities available for sale	9,601,993	9,601,993	8,988,576	8,988,576
Restricted and other bank stock	946,200	946,200	703,500	703,500
Loans receivable	196,064,146	192,587,849	176,998,879	173,033,567
Accrued interest receivable	670,438	670,438	638,308	638,308
Financial Liabilities				
Time certificates	136,167,424	129,321,526	129,545,325	126,130,702
Other deposits	60,485,873	60,485,873	55,620,226	55,620,226
Borrowed funds	3,014,878	3,091,765	36,071	41,423
Accrued interest payable	183,832	183,832	207,808	207,808

Note 15. Orbisonia Community Bancorp, Inc. (Parent Company Only) Financial Information

The following are the condensed balance sheets, statements of income and statements of cash flows for the parent company:

	Balance Sheets	
	December 31	
Assets	2008	2007
Cash	\$ 4,461	\$ 8,492
Investment in wholly-owned subsidiary	20,165,180	18,959,415
Other bank stock	689,130	743,535
Total assets	<u>\$ 20,858,771</u>	<u>\$ 19,711,442</u>
Liabilities		
Deferred tax	<u>\$ 226,547</u>	<u>\$ 245,045</u>
Stockholders' Equity		
Common stock, par value \$ 0.25; authorized and issued 800,000 shares; outstanding 773,885 shares - 2008; 774,896 shares - 2007	\$ 200,000	\$ 200,000
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	18,835,798	17,668,096
Accumulated other comprehensive income	517,055	479,062
Less cost of treasury stock (26,115 shares - 2008; 25,104 shares - 2007)	(920,629)	(880,761)
Total stockholders' equity	<u>20,632,224</u>	<u>19,466,397</u>
Total liabilities and stockholders' equity	<u>\$ 20,858,771</u>	<u>\$ 19,711,442</u>

Note 15. Orbisonia Community Bancorp, Inc. (Parent Company Only) Financial Information (Continued)

**Statements of Income
Years Ended December 31**

	2008	2007
Income:		
Cash dividends from wholly-owned subsidiary	\$ 595,738	\$ 882,485
Equity in undistributed income of subsidiary	1,347,421	974,236
Dividends from bank stock	26,840	34,457
Miscellaneous	<u>102</u>	<u>1,654</u>
Total income	<u>1,970,101</u>	<u>1,892,832</u>
Expenses:		
Professional fees	2,876	0
Other expense	<u>3,229</u>	<u>3,457</u>
Total expense	<u>6,105</u>	<u>3,457</u>
 Net income	 <u>\$ 1,963,996</u>	 <u>\$ 1,889,375</u>

**Statements of Cash Flows
Years Ended December 31**

Cash flows from operating activities:		
Net income	\$ 1,963,996	\$ 1,889,375
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in undistributed income of subsidiary	(1,347,421)	(974,236)
Net cash provided by operating activities	<u>616,575</u>	<u>915,139</u>
 Cash flows from financing activities:		
Cash dividends paid	(580,738)	(508,494)
Purchase of treasury stock	<u>(39,868)</u>	<u>(417,600)</u>
Net cash (used) by financing activities	<u>(620,606)</u>	<u>(926,094)</u>
Net increase (decrease) in cash	(4,031)	(10,955)
Cash, beginning balance	<u>8,492</u>	<u>19,447</u>
Cash, ending balance	<u>\$ 4,461</u>	<u>\$ 8,492</u>

Note 16. Regulatory Matters

Dividends paid by Orbisonia Community Bancorp, Inc. are provided from the Community State Bank's dividends to the parent company. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or additional paid-in capital be equal to the amount of capital. Community State Bank is well above these requirements and the balance of \$ 17,887,895 in its retained earnings at December 31, 2008 is available for cash dividends. Orbisonia Community Bancorp's balance of retained earnings at December 31, 2008 is \$ 18,835,798 and would be available for cash dividends, although payment of dividends to such extent would not be prudent or likely. The Federal Reserve Board, which regulates bank holding companies, establishes guidelines which indicate that cash dividends should be covered by current period earnings. The Corporation is also subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines, the Corporation is required to maintain minimum capital ratios. The leverage ratio compares capital to total balance sheet assets, while the risk-based ratios compare capital to risk-weighted assets and off-balance-sheet activity in order to make capital levels more sensitive to risk profiles of individual banks. A comparison of Orbisonia Community Bancorp's capital ratios to regulatory minimums at December 31 is as follows:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2008						
Total capital (to risk weighted assets)	\$ 21,871	15.2%	\$ 13,024	8.0%	\$ 15,030	10.0%
Tier I capital (to risk weighted assets)	20,088	14.1%	6,012	4.0%	9,018	6.0%
Tier I capital (to average assets)	20,088	9.6%	8,793	4.0%	10,992	5.0%
As of December 31, 2007						
Total capital (to risk weighted assets)	\$ 20,654	15.0%	\$ 11,038	8.0%	\$ 13,797	10.0%
Tier I capital (to risk weighted assets)	18,987	13.8%	5,519	4.0%	8,278	6.0%
Tier I capital (to average assets)	18,987	9.3%	8,213	4.0%	10,266	5.0%

As of December 31, 2008 the most recent notification from the Federal Deposit Insurance Corporation categorized the Corporation as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Corporation must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the above table. There are no conditions or events since that notification that management believes have changed the Corporation's category.

Note 17. Effects of Recently Issued Accounting Standards

In September 2006, the Emerging Issues Task Force of the Financial Accounting Standards Board (EITF) issued EITF 06-04. This pronouncement affects the recording of post retirement costs of insurance of bank owned life insurance policies in instances where the Bank has promised a continuation of life insurance coverage to persons post retirement. EITF 06-04 requires that a liability equal to the present value of the cost of post retirement insurance be recorded during the insured employee's term of service. The terms of this pronouncement require the initial recording of this liability, with a corresponding adjustment to retained earnings to reflect the implementation of the pronouncement. On January 1, 2008, the Corporation recorded a \$ 215,556 liability and a corresponding decrease in retained earnings. For periods after January 1, 2008, the Corporation will record an appropriate liability and corresponding effects on current income for the applicable periods. A net expense of \$ 48,702 was recorded for the year ended December 31, 2008 as a result of this pronouncement.