EMCF 10-K 12/31/2007

Section 1: 10-K (EMCLAIRE FINANCIAL CORP. 10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One):

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2007

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: ___________ to ___________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
612 Main Street, Emlenton, PA	16373
(Address of principal executive office)	(Zip Code)

Registrant's telephone number: (724) 867-2311

Securities registered pursuant to Section 12(b) of the Act: None. OTC Electronic Bulletin Board (OTCBB)
Name of exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $1.25 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ☐ NO ☒.

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ☐ NO ☒.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒.

As of June 29, 2007, the aggregate value of the 1,267,835 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 150,422 shares held by the directors and officers of the Registrant as a group, was approximately $28.2 million. This figure is based on the last sales price of $25.25 per share of the Registrant's Common Stock on June 29, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year ended December 31, 2007 (Parts I, II, and IV).
2. Portions of the Proxy Statement for the April 23, 2008 Annual Meeting of Stockholders (Part III).

EMCLAIRE FINANCIAL CORP.

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PART I

Item 1. Business

General

Emclaire Financial Corp. (the Corporation) is a Pennsylvania corporation and financial holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank). The Bank also provides investment advisory services through its Farmers National Financial Services division.

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank operates through a network of eleven retail branch offices in Venango, Butler, Clarion, Clearfield, Elk and Jefferson counties, Pennsylvania. The Corporation and the Bank are headquartered in Emlenton, Pennsylvania.

The Corporation and the Bank are subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC), which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation (FDIC), which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland (FRB) and the Federal Home Loan Bank of Pittsburgh (FHLB). The Corporation is a registered financial holding company pursuant to the Bank Holding Company Act of 1956 (BHCA), as amended.

At December 31, 2007, the Corporation had $311.7 million in total assets, $24.7 million in stockholders' equity, $229.8 million in loans and $244.3 million in deposits.

Lending Activities

General. The principal lending activities of the Bank are the origination of residential mortgage, commercial mortgage, commercial business and consumer loans. Significantly all of the Bank's loans are secured by property in the Bank's primary market area.

One-to-Four Family Mortgage Loans. The Bank offers first mortgage loans secured by one-to-four family residences located in the Bank's primary lending area. Typically such residences are single-family owner occupied units. The Bank is an approved, qualified lender for the Federal Home Loan Mortgage Corporation (FHLMC). As a result, the Bank may sell loans to and service loans for the FHLMC in market conditions and circumstances where this is advantageous in managing interest rate risk.

Home Equity Loans. The Bank originates home equity loans secured by single-family residences. These loans may be either a single advance fixed-rate loan with a term of up to 20 years, or a variable rate revolving line of credit. These loans are made only on owner-occupied single-family residences.

Commercial Business and Commercial Real Estate Loans. Commercial lending constitutes a significant portion of the Bank's lending activities. Commercial business and commercial real estate loans amounted to 46.2% of the total loan portfolio at December 31, 2007. Commercial real estate loans generally consist of loans granted for commercial purposes secured by commercial or other nonresidential real estate. Commercial loans consist of secured and unsecured loans for such items as capital assets, inventory, operations and other commercial purposes.

Consumer Loans. Consumer loans generally consist of fixed-rate term loans for automobile purchases, home improvements not secured by real estate, capital and other personal expenditures. The Bank also offers unsecured revolving personal lines of credit and overdraft protection.

Loans to One Borrower. National banks are subject to limits on the amount of credit that they can extend to one borrower. Under current law, loans to one borrower are limited to an amount equal to 15% of unimpaired capital and surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral. At December 31, 2007, the Bank's loans to one borrower limit based upon 15% of unimpaired capital was $3.6 million. At December 31, 2007, the Bank's largest single lending relationship had an outstanding balance of $5.2 million. Credit granted to this borrower in excess of the legal lending limit is part of the Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of $4.3 million, which consisted of a loan to a municipality and was not subject to the legal lending limit. The Bank had one additional lending relationship exceeding the legal lending limit totaling $3.8 million at December 31, 2007. Credit granted to this borrower in excess of the legal lending limit is also part of the Pilot Program. The next largest borrower had loans which totaled $3.5 million and consisted of loans secured by commercial real estate and business property in the Bank's lending area. At December 31, 2007, all of such loans were performing in accordance with their original terms.

Loan Portfolio. The following table sets forth the composition and percentage of the Corporation's loans receivable in dollar amounts and in percentages of the portfolio as of December 31:

(Dollar amounts in thousands)	2007		2006		2005		2004		2003	
	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%
Mortgage loans on real estate:										
Residential first mortgages	$ 65,706	28.3%	$ 64,662	30.0%	$ 66,011	34.0%	$ 69,310	38.2%	$ 76,396	39.7%
Home equity loans and lines of credit	49,426	21.3%	47,330	22.0%	39,933	20.5%	31,548	17.4%	30,316	15.8%
Commercial	71,599	30.9%	61,128	28.4%	52,990	27.3%	48,539	26.8%	44,935	23.4%
Total real estate loans	186,731	80.5%	173,120	80.4%	158,934	81.8%	149,397	82.4%	151,647	78.9%
Other loans:										
Commercial business	35,566	15.3%	34,588	16.0%	27,732	14.2%	23,898	13.2%	26,470	13.8%
Consumer	9,679	4.2%	7,671	3.6%	7,729	4.0%	8,090	4.4%	14,142	7.3%
Total other loans	45,245	19.5%	42,259	19.6%	35,461	18.2%	31,988	17.6%	40,612	21.1%
Total loans receivable	231,976	100.0%	215,379	100.0%	194,395	100.0%	181,385	100.0%	192,259	100.0%
Less:										
Allowance for loan losses	2,157		2,035		1,869		1,810		1,777	
Net loans receivable	$ 229,819		$ 213,344		$ 192,526		$ 179,575		$ 190,482	

The following table sets forth the scheduled contractual principal repayments or interest repricing of loans in the Corporation's portfolio as of December 31, 2007. Demand loans having no stated schedule of repayment and no stated maturity are reported as due within one year.

(Dollar amounts in thousands)	Due in one year or less	Due from one to five years	Due from five to ten years	Due after ten years	Total
Residential mortgages	$ 1,142	$ 3,829	$ 11,487	$ 49,248	$ 65,706
Home equity loans and lines of credit	379	6,229	16,694	26,124	49,426
Commercial mortgages	2,758	4,487	13,306	51,048	71,599
Commercial business	4,068	9,314	4,063	18,121	35,566
Consumer	593	6,926	1,727	433	9,679
	$ 8,940	$ 30,785	$ 47,277	$ 144,974	$ 231,976

The following table sets forth the dollar amount of the Corporation's fixed- and adjustable-rate loans with maturities greater than one year as of December 31, 2007:

(Dollar amounts in thousands)	Fixed rates	Adjustable rates
Residential mortgage	$ 52,120	$ 13,586
Home equity loans and lines of credit	45,782	3,644
Commercial mortgage	16,260	55,339
Commercial business	14,114	21,452
Consumer	8,876	803
	$ 137,152	$ 94,824

Contractual maturities of loans do not reflect the actual term of the Corporation's loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and enforcement of due-on-sale clauses, which give the Corporation the right to declare a loan immediately payable in the event, among other things, that the borrower sells the real property subject to the mortgage. Scheduled principal amortization also reduces the average life of the loan portfolio. The average life of mortgage loans tends to increase when current market mortgage rates substantially exceed rates on existing mortgages and conversely, decrease when rates on existing mortgages substantially exceed current market interest rates.

Delinquencies and Classified Assets

Delinquent Loans and Real Estate Acquired Through Foreclosure (REO). Typically, a loan is considered past due and a late charge is assessed when the borrower has not made a payment within fifteen days from the payment due date. When a borrower fails to make a required payment on a loan, the Corporation attempts to cure the deficiency by contacting the borrower. The initial contact with the borrower is made shortly after the seventeenth day following the due date for which a payment was not received. In most cases, delinquencies are cured promptly.

If the delinquency exceeds 60 days, the Corporation works with the borrower to set up a satisfactory repayment schedule. Typically loans are considered non-accruing upon reaching 90 days delinquent, although the Corporation may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed in non-accrual status, previously accrued but unpaid interest is deducted from interest income. The Corporation institutes foreclosure action on secured loans only if all other remedies have been exhausted. If an action to foreclose is instituted and the loan is not reinstated or paid in full, the property is sold at a judicial or trustee's sale at which the Corporation may be the buyer.

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, management periodically performs valuations and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in loss on foreclosed real estate. The Corporation generally attempts to sell its REO properties as soon as practical upon receipt of clear title. The original lender typically handles disposition of those REO properties resulting from loans purchased in the secondary market.

As of December 31, 2007, the Corporation's non-performing assets, which include non-accrual loans, loans delinquent due to maturity, troubled debt restructuring, repossessions and REO, amounted to $1.1 million or 0.35% of the Corporation's total assets.

Classified Assets. Regulations applicable to insured institutions require the classification of problem assets as "substandard," "doubtful," or "loss" depending upon the existence of certain characteristics as discussed below. A category designated "special mention" must also be maintained for assets currently not requiring the above classifications but having potential weakness or risk characteristics that could result in future problems. An asset is classified as substandard if not adequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset is characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified as substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as assets is not warranted.

The Corporation's classification of assets policy requires the establishment of valuation allowances for loan losses in an amount deemed prudent by management. Valuation allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities. When the Corporation classifies a problem asset as a loss, the portion of the asset deemed uncollectible is charged off immediately.

The Corporation regularly reviews the problem loans and other assets in its portfolio to determine whether any require classification in accordance with the Corporation's policy and applicable regulations. As of December 31, 2007, the Corporation's classified and criticized assets amounted to $6.6 million with $2.8 million classified as substandard and $3.8 million identified as special mention.

The following table sets forth information regarding the Corporation's non-performing assets as of December 31:

(Dollar amounts in thousands)	2007	2006	2005	2004	2003
Non-performing loans	$ 952	$ 1,841	$ 1,452	$ 840	$ 1,329
Total as a percentage of gross loans	0.41%	0.85%	0.75%	0.46%	0.69%
Repossessions	-	-	-	2	45
Real estate acquired through foreclosure	129	98	106	69	-
Total as a percentage of total assets	0.04%	0.03%	0.04%	0.03%	0.00%
Total non-performing assets	$ 1,081	$ 1,939	$ 1,558	$ 911	$ 1,374
Total non-performing assets as a percentage of total assets	0.35%	0.65%	0.57%	0.33%	0.52%
Allowance for loan losses as a percentage of non-performing loans	226.58%	110.54%	128.72%	215.48%	133.71%

Allowance for Loan Losses. Management establishes allowances for estimated losses on loans based upon its evaluation of the pertinent factors underlying the types and quality of loans; historical loss experience based on volume and types of loans; trend in portfolio volume and composition; level and trend on non-performing assets; detailed analysis of individual loans for which full collectibility may not be assured; determination of the existence and realizable value of the collateral and guarantees securing such loans and the current economic conditions affecting the collectibility of loans in the portfolio. The Corporation analyzes its loan portfolio each quarter for valuation purposes and to determine the adequacy of its allowance for losses. Based upon the factors discussed above, management believes that the Corporation's allowance for losses as of December 31, 2007 of $2.2 million was adequate to cover probable losses inherent in the portfolio.

The following table sets forth an analysis of the allowance for losses on loans receivable for the years ended December 31:

(Dollar amounts in thousands)	2007	2006	2005	2004	2003
Balance at beginning of period	$ 2,035	$ 1,869	$ 1,810	$ 1,777	$ 1,587
Provision for loan losses	256	358	205	290	330
Charge-offs:					
Mortgage loans	(82)	(154)	(46)	(165)	(25)
Commercial business loans	(22)	(18)	(60)	(36)	(26)
Consumer loans	(60)	(49)	(91)	(117)	(154)
	(164)	(221)	(197)	(318)	(205)
Recoveries:					
Mortgage loans	1	-	-	17	-
Commercial business loans	16	19	18	19	22
Consumer loans	13	10	33	25	43
	30	29	51	61	65
Balance at end of period	$ 2,157	$ 2,035	$ 1,869	$ 1,810	$ 1,777
Ratio of net charge-offs to average loans outstanding	0.06%	0.09%	0.08%	0.14%	0.08%
Ratio of allowance to total loans at end of period	0.93%	0.94%	0.96%	1.00%	0.92%

The following table provides a breakdown of the allowance for loan losses by major loan category for the years ended December 31:

(Dollar amounts in thousands)	2007		2006		2005		2004		2003	
Loan Categories:	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 387	17.9%	$ 532	26.1%	$ 554	29.6%	$ 503	27.8%	$ 623	35.1%
Commercial mortgages	1,068	49.5%	820	40.3%	841	45.0%	1,137	62.8%	798	44.9%
Residential mortgages	309	14.3%	239	11.7%	211	11.3%	10	0.6%	20	1.1%
Home equity loans	368	17.1%	339	16.7%	150	8.0%	39	2.2%	68	3.8%
Consumer loans	79	3.7%	83	4.1%	106	5.7%	121	6.7%	190	10.7%
Unallocated	(54)	-2.5%	22	1.1%	7	0.4%	-	0.0%	78	4.4%
	$ 2,157	100%	$ 2,035	100%	$ 1,869	100%	$ 1,810	100%	$ 1,777	100%

Investment Portfolio

General. The Corporation maintains an investment portfolio of securities such as U.S. government and agency securities, state and municipal debt obligations, corporate notes and bonds, and to a lesser extent, mortgage-backed and equity securities. Management generally maintains an investment portfolio with relatively short maturities to minimize overall interest rate risk. However, at December 31, 2007 approximately $13.7 million was invested in longer-term callable municipal securities, as part of a strategy to moderate federal income taxes. The Bank has no investment with any one issuer in an amount greater than 10% of stockholders' equity.

Investment decisions are made within policy guidelines established by the Board of Directors. This policy is aimed at maintaining a diversified investment portfolio, which complements the overall asset/liability and liquidity objectives of the Bank, while limiting the related credit risk to an acceptable level.

The following table sets forth certain information regarding the fair value, weighted average yields and contractual maturities of the Corporation's securities as of December 31, 2007:

(Dollar amounts in thousands)	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years	Due from 5 to 10 years	Due after 10 years	No scheduled maturity	Total
U.S. Government securities	$ 10,105	$ 14,226	$ 1,000	$ 1,000	$ 3,003	$ -	$ 29,334
Mortgage-backed securities	210	793	-	881	-	-	1,884
Municipal securities	-	-	-	1,463	12,788	-	14,251
Corporate securities	2,939	-	-	-	-	-	2,939
Equity securities	-	-	-	-	-	3,511	3,511
Estimated fair value	$ 13,254	$ 15,019	$ 1,000	$ 3,344	$ 15,791	$ 3,511	$ 51,919
Weighted average yield (1)	4.44%	4.56%	4.90%	3.87%	5.08%	4.41%	4.64%

(1) Weighted average yield is calculated based upon amortized cost.

For additional information regarding the Corporation's investment portfolio see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" in the Annual Report incorporated herein by reference.

Sources of Funds

General. Deposits are the primary source of the Bank's funds for lending and investing activities. Secondary sources of funds are derived from loan repayments and investment maturities. Loan repayments can be considered a relatively stable funding source, while deposit activity is greatly influenced by interest rates and general market conditions. The Bank also has access to funds through credit facilities available from the FHLB. In addition, the Bank can obtain advances from the FRB discount window. For a description of the Bank's sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report incorporated herein by reference.

Deposits. The Bank offers a wide variety of retail deposit account products to both consumer and commercial deposit customers, including time deposits, non-interest bearing and interest bearing demand deposit accounts, savings deposits and money market accounts.

Deposit products are promoted in periodic newspaper and radio advertisements, along with notices provided in customer account statements. The Bank's market strategy is based on its reputation as a community bank that provides quality products and personal customer service.

The Bank pays interest rates on its interest bearing deposit products that are competitive with rates offered by other financial institutions in its market area. Management reviews interest rates on deposits weekly and considers a number of factors, including (1) the Bank's internal cost of funds; (2) rates offered by competing financial institutions; (3) investing and lending opportunities; and (4) the Bank's liquidity position.

For additional information regarding the Corporation's deposit base and borrowed funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" in the Annual Report incorporated herein by reference.

Subsidiary Activity

The Corporation has one wholly owned subsidiary, the Bank, a national association. As of December 31, 2007, the Bank had no subsidiaries.

Personnel

At December 31, 2007, the Bank had 103 full time equivalent employees. There is no collective bargaining agreement between the Bank and its employees, and the Bank believes its relationship with its employees to be satisfactory.

Competition

The Bank competes for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers.

Supervision and Regulation

General. Bank holding companies and banks are extensively regulated under both federal and state law. Set forth below is a summary description of certain provisions of certain laws that relate to the regulation of the Corporation and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The Corporation. The Corporation is a registered bank holding company, and subject to regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended (the BHCA). The Corporation is required to file with the FRB periodic reports and such additional information as the FRB may require. Recent changes to the Bank Holding Company rating system emphasizes risk management and evaluation of the potential impact of non-depository entities on safety and soundness.

The FRB may require the Corporation to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments when the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries. The FRB also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, the Corporation must file written notice and obtain FRB approval prior to purchasing or redeeming its equity securities.

Further, the Corporation is required by the FRB to maintain certain levels of capital. See “Capital Standards.”

The Corporation is required to obtain prior FRB approval for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior FRB approval is also required for the merger or consolidation of the Corporation and another bank holding company.

The Corporation is prohibited by the BHCA, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, subject to the prior FRB approval, the Corporation may engage in any, or acquire shares of companies engaged in, activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under FRB regulations, the Corporation is required to serve as a source of financial and managerial strength to the Corporation’s subsidiary bank and may not conduct operations in an unsafe or unsound manner. In addition, it is the FRB’s policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both.
The Corporation is also a bank holding company within the meaning of the Pennsylvania Banking Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the Pennsylvania Department of Banking.

The Corporation's securities are registered with the SEC under the Exchange Act. As such, the Corporation is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act. The public may obtain all forms and information filed with the SEC through their website http://www.sec.gov.

The Bank. As a national banking association, the Bank is subject to primary supervision, examination and regulation by the OCC. The Corporation is also subject to regulations of the FDIC as administrator of the Deposit Insurance Fund (DIF) and the FRB. If, as a result of an examination of the Bank, the OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Corporation's operations are unsatisfactory or that the Bank is violating or has violated any law or regulation, various remedies are available to the OCC. Such remedies include the power to enjoin "unsafe or unsound practices," to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the Bank's growth, to assess civil monetary penalties, and to remove officers and directors. The FDIC has similar enforcement authority, in addition to its authority to terminate the Bank's deposit insurance in the absence of action by the OCC and upon a finding that the Bank is operating in an unsafe or unsound condition, is engaging in unsafe or unsound activities, or that the Corporation's conduct poses a risk to the deposit insurance fund or may prejudice the interest of its depositors.

A national bank may have a financial subsidiary engaged in any activity authorized for national banks directly or certain permissible activities. Generally, a financial subsidiary is permitted to engage in activities that are "financial in nature" or incidental thereto, even though they are not permissible for the national bank itself. The definition of "financial in nature" includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance, issue annuities or engage in real estate development or investment or merchant banking.

The Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, including:

- the prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances;
- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls on, and reporting of, insider trading; and
- statutory separations between investment bankers and analysts.

The new legislation and its implementing regulations have resulted in increased costs of compliance, including certain outside professional costs. To date these costs have not had a material impact on the Corporation's operations.

USA PATRIOT Act of 2001. The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws. Under the USA PATRIOT Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures and controls generally require financial institutions to take reasonable steps:

- To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction,
- To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions,
- To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner, and
- To ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are required to establish and maintain anti-money laundering programs which include:

- The establishment of a customer identification program,
- The development of internal policies, procedures, and controls,
- The designation of a compliance officer,
- An ongoing employee training program, and
- An independent audit function to test the programs.

The Bank has implemented comprehensive policies and procedures to address the requirements of the USA PATRIOT Act.

Privacy. Federal banking rules limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules, financial institutions must provide:

- Initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- Annual notices of their privacy policies to current customers; and
- A reasonable method for customers to "opt out" of disclosures to nonaffiliated third parties.

These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Corporation's privacy policies have been implemented in accordance with the law.

Dividends and Other Transfers of Funds. Dividends from the Bank constitute the principal source of income to the Corporation. The Corporation is a legal entity separate and distinct from the Bank. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Corporation. In addition, the Bank's regulators have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

Transactions with Affiliates. The Bank is subject to certain restrictions imposed by federal law on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Such restrictions prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in any affiliate are limited, individually, to 10% of the Bank's capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20% of the Bank's capital and surplus. Some of the entities included in the definition of an affiliate are parent companies, sister banks, sponsored and advised companies, investment companies whereby the Bank or its affiliate serves as investment advisor, and financial subsidiaries of the bank. Additional restrictions on transactions with affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law. See "Prompt Corrective Action and Other Enforcement Mechanisms."

Loans to One Borrower Limitations. With certain limited exceptions, the maximum amount that a national bank may lend to any borrower (including certain related entities of the borrower) at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. At December 31, 2007, the Bank's loans-to-one-borrower limit was $3.6 million based upon the 15% of unimpaired capital and surplus measurement. At December 31, 2007, the Bank's largest single lending relationship had an outstanding balance of $5.2 million. Credit granted to this borrower in excess of the legal lending limit is part of the Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of $4.3 million, which consisted of a loan to a municipality and was not subject to the legal lending limit. The Bank had one additional lending relationship exceeding the legal lending limit totaling $3.8 million at December 31, 2007. Credit granted to this borrower in excess of the legal lending limit is also part of the Pilot Program. The next largest borrower had loans which totaled $3.5 million and consisted of loans secured by commercial real estate and business property in the Bank's lending area. At December 31, 2007, all of such loans were performing in accordance with their terms.

Capital Standards. The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as federal banking agencies, to 100% for assets with relatively high credit risk.

The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Not more than 25% of qualifying Tier I capital may consist of trust-preferred securities. "Tier II capital" consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock that does not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. "Tier III capital" consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

The guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

In addition, federal banking regulators may set capital requirements higher than the minimums described above for financial institutions whose circumstances warrant it. For example, a financial institution experiencing or anticipating significant growth may be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets.

Prompt Corrective Action and Other Enforcement Mechanisms. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At December 31, 2007, the Bank exceeded the required ratios for classification as "well/adequately capitalized."

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized – without the express permission of the institution's primary regulator.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Insurance of Accounts. The deposits of the Bank are insured to the maximum extent permitted by the Deposit Insurance Fund (DIF) and are backed by the full faith and credit of the U.S. Government. As insurer, the Federal Deposit Insurance Corporation (FDIC) is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC.

Each FDIC insured institution is assigned to one of three capital groups which are based solely on the level of an institution's capital— "well capitalized," "adequately capitalized," and "undercapitalized." These capital levels are defined in the same manner as under the prompt corrective action system discussed above. These three groups are then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern. Assessment rates for insured institutions are determined semi-annually by the FDIC and currently range from zero basis points for well-capitalized healthy institutions, such as the Bank, to 27 basis points for undercapitalized institutions with substantial supervisory concern.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. The annual assessment rate set for the third quarter of 2007 was 0.00285% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

On February 8, 2006, President George W. Bush signed into law legislation that merged the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) to form the DIF, eliminated any disparities in bank and thrift risk-based premium assessments, reduced the administrative burden of maintaining and operating two separate funds and established certain new insurance coverage limits and a mechanism for possible periodic increases. The legislation also gave the FDIC greater discretion to identify the relative risks all institutions present to the DIF and set risk-based premiums.

Major provisions in the legislation include:

- Merging the SAIF and BIF, which became effective March 31, 2006.
- Maintaining basic deposit and municipal account insurance coverage at $100,000 but providing for a new basic insurance coverage for retirement accounts of $250,000. Insurance coverage for basic deposit and retirement accounts could be increased for inflation every five years in $10,000 increments beginning in 2011.
- Providing the FDIC with the ability to set the designated reserve ratio within a range of between 1.15% and 1.50%, rather than maintaining 1.25% at all times regardless of prevailing economic conditions.
- Providing a one-time assessment credit of $4.7 billion to banks and savings associations in existence on December 31, 1996. The institutions qualifying for the credit may use it to offset future premiums with certain limitations.
- Requiring the payment of dividends of 100% of the amount that the insurance fund exceeds 1.5% of the estimated insured deposits and the payment of 50% of the amount that the insurance fund exceeds 1.35% of the estimated insured deposits (when the reserve is greater than 1.35% but no more than 1.5%).

Interstate Banking and Branching. Banks have the ability, subject to certain State restrictions, to acquire, by acquisition or merger, branches outside its home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Consumer Protection Laws and Regulations. The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act (CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank’s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution’s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of “outstanding” to a low of “substantial noncompliance.” In its last examination for CRA compliance, as of May 5, 2004, the Bank was rated “satisfactory.”

On September 1, 2005, the federal banking agencies amended the CRA regulations to:

- establish the definition of "Intermediate Small Bank" as an institution with total assets of $250 million to $1 billion, without regard to any holding company; and
- take into account abusive lending practices by a bank or its affiliates in determining a bank's CRA rating.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act (FACT) requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and give consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with FACT, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer's election to opt out would be applicable for at least five years.

The Check Clearing for the 21st Century Act (Check 21) facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a "substitute check," which is the legal equivalent of an original check. Check 21, effective October 28, 2004, does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original.

The Equal Credit Opportunity Act (ECOA) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act (FH Act) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. But typically predatory lending involves at least one, and perhaps all three, of the following elements:

- making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation ("asset-based lending")
- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping")
- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

FRB regulations aimed at curbing such lending significantly widen the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

Effective April 8, 2005, OCC guidelines require national banks and their operating subsidiaries to comply with certain standards when making or purchasing loans to avoid predatory or abusive residential mortgage lending practices. Failure to comply with the guidelines could be deemed an unsafe and unsound or unfair or deceptive practice, subjecting the bank to supervisory enforcement actions.

Finally, the Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Pittsburgh. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2007, the Bank was in compliance with the stock requirements.

Federal Reserve System. The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At December 31, 2007, the Bank was in compliance with these requirements.

Forward Looking Statements

Discussions of certain matters in this Form 10-K and other related year end documents may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions of future or conditional verbs such as "will", "should", "would", and "could". These forward-looking statements relate to, among other things, expectations of the business environment in which the Corporation operates, projections of future performance, potential future credit experience, perceived opportunities in the market and statements regarding the Corporation's mission and vision. The Corporation's actual results, performance and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the local economy, the demand for the Corporation's products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, U.S. Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies and other risks detailed in the Corporation's reports filed with the Securities and Exchange Commission (SEC) from time to time. These factors and those discussed under "Risk Factors" should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Item 1A. Risk Factors

The following discusses certain factors that may affect the Corporation's financial condition and results of operations and should be considered in analyzing whether to make or continue an investment in our common stock.

Economic Conditions and Geographic Concentration. The Corporation's operations are located in western Pennsylvania and are concentrated in Venango, Clarion and Butler Counties, Pennsylvania. Although management has diversified the Corporation's loan portfolio into other Pennsylvania counties, and to a very limited extent, into other states, the vast majority of the Corporation's credits remain concentrated in the three primary counties. As a result of this geographic concentration, the Corporation's results depend largely upon economic and real estate market conditions in these areas. Deterioration in economic or real estate market conditions in the Corporation's primary market areas could have a material adverse impact on the quality of the Corporation's loan portfolio, the demand for its products and services, and its financial condition and results of operations.

Interest Rates. By nature, all financial institutions are impacted by changing interest rates. Among other issues, changes in interest rates may affect the following:

- the demand for new loans;
- the value of our interest-earning assets;
- prepayment speeds experienced on various asset classes, particularly residential mortgage loans;
- credit profiles of existing borrowers;
- rates received on loans and securities;
- our ability to obtain and retain deposits in connection with other available investment alternatives; and
- rates paid on deposits and borrowings.

As presented previously, the Corporation is financially exposed to parallel shifts in general market interest rates, changes in the relative pricing of the term structure of general market interest rates, and relative credit spreads. Therefore, significant fluctuations in interest rates may have an adverse effect upon the Corporation's financial condition and results of operations.

Credit Quality. A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans. The Corporation has adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believes are appropriate to control this risk by assessing the likelihood of non-performance, tracking loan performance, and diversifying the credit portfolio. Such policies and procedures may not, however, prevent unexpected losses that could have a material adverse effect on the Corporation's financial condition or results of operations. Unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond the Corporation's ability to predict, influence, or control.

*There are increased risks involved with commercial real estate and commercial business and consumer lending activities***.** Our lending activities include loans secured by commercial real estate. Commercial real estate lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances and the dependency on successful operation of the project for repayment. Our lending activities also include commercial business loans to small to medium business, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home equity and second mortgage loans, automobile loans and unsecured loans. Although commercial business loans and consumer loans generally have shorter terms and higher interest rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

*Our allowance for loan losses on loans may not be adequate to cover probable losses***.** We have established an allowance for loan losses which we believe is adequate to offset probable losses on our existing loans. There can be no assurance that any future declines in real estate market conditions, general economic conditions or changes in regulatory policies will not require us to increase our allowance for loan losses, which could adversely affect our results of operations.

Other Risks. From time to time, the Corporation details other risks with respect to its business and financial results in its filings with the SEC.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Corporation owns no real property but utilizes the main office of the Bank. The Corporation's and the Bank's executive offices are located at 612 Main Street, Emlenton, Pennsylvania. The Corporation pays no rent or other form of consideration for the use of this facility. The following table sets forth information with respect to the Bank's offices at December 31, 2007:

(Dollar amounts in thousands) Location	County	Owned or Leased	Lease Expiration Date (1)	Net Book Value or Annual Rent	Deposits at 12/31/2007
Corporate and Bank Main Offices:					
Headquarters and Main Office 612 Main Street, Emlenton, Pennsylvania 16373	Venango	Owned	--	$ 1,880	$ 44,238
Data Center 708 Main Street, Emlenton, Pennsylvania 16373	Venango	Owned	--	1,041	--
Bank Branch Offices					
Bon Aire Office 1101 North Main Street, Butler, Pennsylvania 16003	Butler	Leased	May 2011	40	38,347
Brookville Office 263 Main Street, Brookville, Pennsylvania 15825	Jefferson	Owned	--	692	21,988
Clarion Office Sixth & Wood Street, Clarion, Pennsylvania 16214	Clarion	Owned	--	310	34,973
Cranberry Office 7001 Route 322, PO Box 235, Cranberry, PA 16319	Venango	Owned	--	1,198	6,325
DuBois Office 861 Beaver Drive, Dubois, Pennsylvania 15801	Clearfield	Leased	June 2010	21	15,755
East Brady Office 323 Kelly's Way, East Brady, Pennsylvania 16028	Clarion	Owned	--	47	18,833
Eau Claire Office 207 Washington Street, Eau Claire, Pennsylvania 16030	Butler	Owned	--	149	15,815
Grove City Office (2) 1319 West Main Street, Grove City, Pennsylvania 16127	Mercer	Owned	--	688	--
Knox Office Route 338 South, Knox, Pennsylvania 16232	Clarion	Leased	December 2011	28	29,955
Meridian Office 101 Meridian Road, Butler, Pennsylvania 16003	Butler	Leased	December 2012	26	7,798
Ridgway Office 173 Main Street, Ridgway, Pennsylvania 15853	Elk	Owned	--	149	10,235
					$ 244,262

(1) Lease agreements for leased offices typically include renewal options.
(2) Branch office expected to open in early 2008.

Item 3. Legal Proceedings

Neither the Bank nor the Corporation is involved in any material legal proceedings. The Bank, from time to time, is party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial position, results of operation, or liquidity of the Bank or the Corporation.

Item 4. Submission of Matters to a Vote of Security Holders

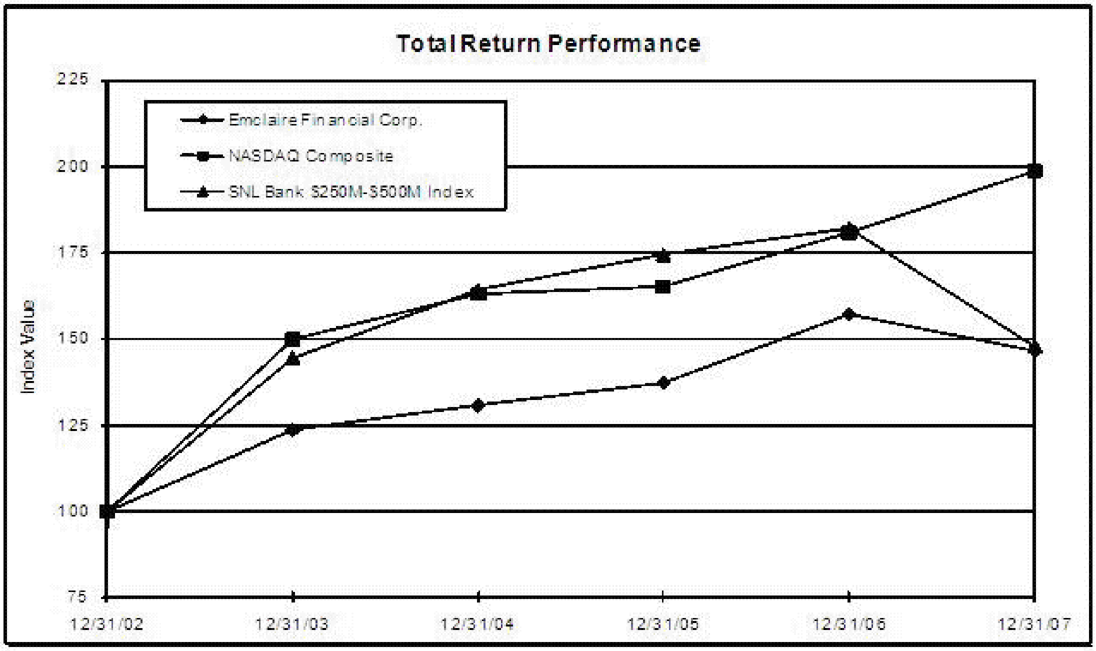
No matters were submitted to stockholders for a vote during the quarter ended December 31, 2007.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) The information is contained under the section captioned "Stock and Dividend Information" in the Corporation's Annual Report for the fiscal year ended December 31, 2007, and is incorporated herein by reference. For information with respect to equity compensation plans, see "Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters." There were no sales of the Corporation's unregistered securities during the period covered by this report.

Set forth below is a graph comparing the yearly percentage change in the cumulative total shareholder return on the Corporation's common stock against the cumulative total return of NASDAQ Composite and SNL $250 million to $500 million Bank Index for the five year period beginning December 31, 2002 and ending December 31, 2007. Each assumes an investment of $100 on December 31, 2002 and reinvestment of dividends when paid. The graph is not necessarily indicative of future price performance.



	Period Ending					
Index	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Emclaire Financial Corp.	100.00	123.58	130.70	137.24	157.14	146.62
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Bank $250M-$500M Index	100.00	144.49	163.99	174.11	181.92	147.85

(b) Not applicable.

(c) Issuer Purchases of Equity Securities. The Corporation did not repurchase any of its equity securities in the year ended December 31, 2007.

Item 6. Selected Financial Data

The required information is contained in the section captioned "Selected Consolidated Financial Data" in the Corporation's Annual Report for the year ended December 31, 2007 and incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The required information is contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Corporation's Annual Report for the year ended December 31, 2007 and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Corporation is comprised primarily from interest rate risk exposure and liquidity risk. Since virtually all of the interest-earning assets and paying liabilities are at the Bank, virtually all of the interest rate risk and liquidity risk lies at the Bank level. The Bank is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Bank does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets. Interest rate risk and liquidity risk management is performed at the Bank level. Although the Bank has a diversified loan portfolio, loans outstanding to individuals and businesses depend upon the local economic conditions in the immediate trade area.

One of the primary functions of the Corporation's asset/liability management committee is to monitor the level to which the balance sheet is subject to interest rate risk. The goal of the asset/liability committee is to manage the relationship between interest rate sensitive assets and liabilities, thereby minimizing the fluctuations in the net interest margin, which achieves consistent growth of net interest income during periods of changing interest rates.

Interest rate sensitivity is the result of differences in the amounts and repricing dates of the Bank's rate sensitive assets and rate sensitive liabilities. These differences, or interest rate repricing "gap", provide an indication of the extent that the Corporation's net interest income is affected by future changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest rate-sensitive liabilities and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at December 31, 2007, the Corporation's interest-earning assets maturing or repricing within one year totaled $72.7 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $93.2 million, providing an excess of interest-bearing liabilities over interest-earning assets of $20.5 million or a negative 6.6% of total assets. At December 31, 2007, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 78.1%.

For more information, see "Market Risk Management" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007.

Item 8. Financial Statements and Supplementary Data

The Corporation's consolidated financial statements required herein are contained in the Corporation's Annual Report for the year ended December 31, 2007 and are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A (T). Controls and Procedures.

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports in compliance with the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's Management, including its Chief Executive Officer and Principal Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c) promulgated under the Exchange Act. As of December 31, 2007, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's Management, including the Corporation's Chief Executive Officer and the Corporation's Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective.

During the fourth quarter of fiscal year 2007, there were no significant changes in the Corporation's internal control over financial reporting or in other factors that could significantly affect the internal controls subsequent to the date of the evaluation referenced above.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Exchange Act Rules 13a – 15(f). The Corporation's internal control system is designed to provide reasonable assurance to its management and board of directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under that framework, management concluded that our internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. The Corporation's internal control over financial reporting was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this annual report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the sections captioned "Principal Beneficial Owners of the Corporation's Common Stock", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Information With Respect to Nominees For Director, Continuing Director and Executive Officers" is incorporated herein by reference to the Corporation's definitive proxy statement for the Corporation's Annual Meeting of Stockholders to be held on April 23, 2008 (the Proxy Statement) which will be filed no later than 120 days following the Corporation's fiscal year end.

The Corporation maintains a Code of Personal and Business Conduct and Ethics (the Code) that applies to all employees, including the CEO and the CFO. A copy of the Code has previously been filed with the SEC and is posted on our website at www.farmersnb.com. Any waiver of the Code with respect to the CEO and the CFO will be publicly disclosed in accordance with applicable regulations.

Item 11. Executive Compensation

The information contained under the section captioned "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated herein by reference to the section captioned "Principal Beneficial Owners of the Corporation's Common Stock" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned "Information With Respect to Nominees For Director, Continuing Directors and Executive Officers" and "Executive Compensation" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "Relationship With Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)-(2) Financial Statements and Schedules:

(i) Financial statements and schedules included in Exhibit 13 to this Form 10-K are filed as part of this report.

(ii) All other financial statement schedules are omitted because the required information is not applicable, or because the information required is included in the consolidated financial statements and notes thereto.

(3) Management Contracts or Compensatory Plans:

(i) Exhibits 10.1-10.3 listed below in (b) below identify management contracts or compensatory plans or arrangements required to be filed as exhibits to this report, and such listing is incorporated herein by reference.

(b) Exhibits are either attached as part of this Report or incorporated herein by reference.

3.1 Articles of Incorporation of Emclaire Financial Corp. (1)

3.2 Bylaws of Emclaire Financial Corp. (1)

4 Specimen Stock Certificate of Emclaire Financial Corp. (2)

10.1 Employment Agreement between Emclaire Financial Corp., the Farmers National bank of Emlenton and David L. Cox, dated as of July 1, 2007. (3)

10.2 Employment Agreement between Emclaire Financial Corp., the Farmers National bank of Emlenton and William C. Marsh, dated as of July 1, 2007. (3)

10.3 Change in Control Agreement between Emclaire Financial Corp., the Farmers National bank of Emlenton and Raymond M. Lawton, dated as of July 1, 2007. (3)

10.4 Change in Control Agreement between Emclaire Financial Corp., the Farmers National bank of Emlenton and Kathleen L. Buzzard, dated as of July 1, 2007. (3)

10.5 Form of Group Term Carve-Out Plan between the Farmers National Bank of Emlenton and 20 Officers and Employees. (5)

10.6 Form of Supplemental Executive Retiement Plan Agreement between the Farmers National Bank of Emlenton and Six Officers. (5)

11 Statement regarding computation of earnings per share (see Note 1 of the Notes to Consolidated Financial Statements in the Annual Report).

13 Annual Report to Stockholders for the fiscal year ended December 31, 2007.

14 Code of Personal and Business Conduct and Ethics. (6)

16 Letter regarding change in certifying accountant

20 Emclaire Financial Corp. Dividend Reinvestment and Stock Purchase Plan.(4)

21 Subsidiaries of the Registrant (see information contained herein under "Item 1. Description of Business - Subsidiary Activity").

31.1 CEO 302 Certification.

31.2 CFO 302 Certification.

32.1 Chief Executive Officer 906 Certification.

32.2 CFO 906 Certification.

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(1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2, as amended, (File No. 333-11773) declared effective by the SEC on October 25, 1996.

(2) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

(3) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 21, 2007.

(4) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.

(6) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMCLAIRE FINANCIAL CORP.

Dated: March 24, 2008		By:	/s/ David L. Cox David L. Cox President, Chief Executive Officer, and Director (Duly Authorized Representative)

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By:	/s/ David L. Cox David L. Cox President Chairman of the Board Chief Executive Officer Director (Principal Executive Officer)	By:	/s/ William C. Marsh William C. Marsh Chief Financial Officer and Treasurer Director (Principal Financial and Accounting Officer)
Date:	March 24, 2008	Date:	March 24, 2008
By:	/s/ Ronald L. Ashbaugh Ronald L. Ashbaugh Director	By:	/s/ Brian C. McCarrier Brian C. McCarrier Director
Date:	March 24, 2008	Date:	March 24, 2008
By:	/s/ James M. Crooks James M. Crooks Director	By:	/s/ George W. Freeman George W. Freeman Director
Date:	March 24, 2008	Date:	March 24, 2008
By:	/s/ Mark A. Freemer Mark A. Freemer Director	By:	/s/ Robert L. Hunter Robert L. Hunter Director
Date:	March 24, 2008	Date:	March 24, 2008
By:	/s/ J. Michael King J. Michael King Director	By:	/s/ John B. Mason John B. Mason Director
Date:	March 24, 2008	Date:	March 24, 2008

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Section 2: EX-13 (EXHIBIT 13)

EXHIBIT 13

Annual Report to Stockholders for the fiscal year ended December 31, 2007

Emclaire Financial Corp.

Annual Report 2007

Corporate Profile

Emclaire Financial Corp. (*OTCBB: EMCF*), a publicly traded Pennsylvania corporation and bank holding company, provides a wide range of retail and commercial financial products and services to customers in Western Pennsylvania through its wholly owned subsidiary bank, the Farmers National Bank of Emlenton.

The Farmers National Bank of Emlenton is an FDIC-insured national banking association, which conducts business through twelve offices in Venango, Butler, Clarion, Clearfield, Elk, Jefferson and Mercer counties, Pennsylvania. The Bank also provides retail brokerage and other investment services through its Farmers National Financial Services division. To complement consumer and commercial banking activities conducted through its banking offices, the Corporation also invests in U.S. Government, municipal, mortgage-backed and corporate marketable securities primarily through its subsidiary bank.

Farmers National Bank of Emlenton Market Area

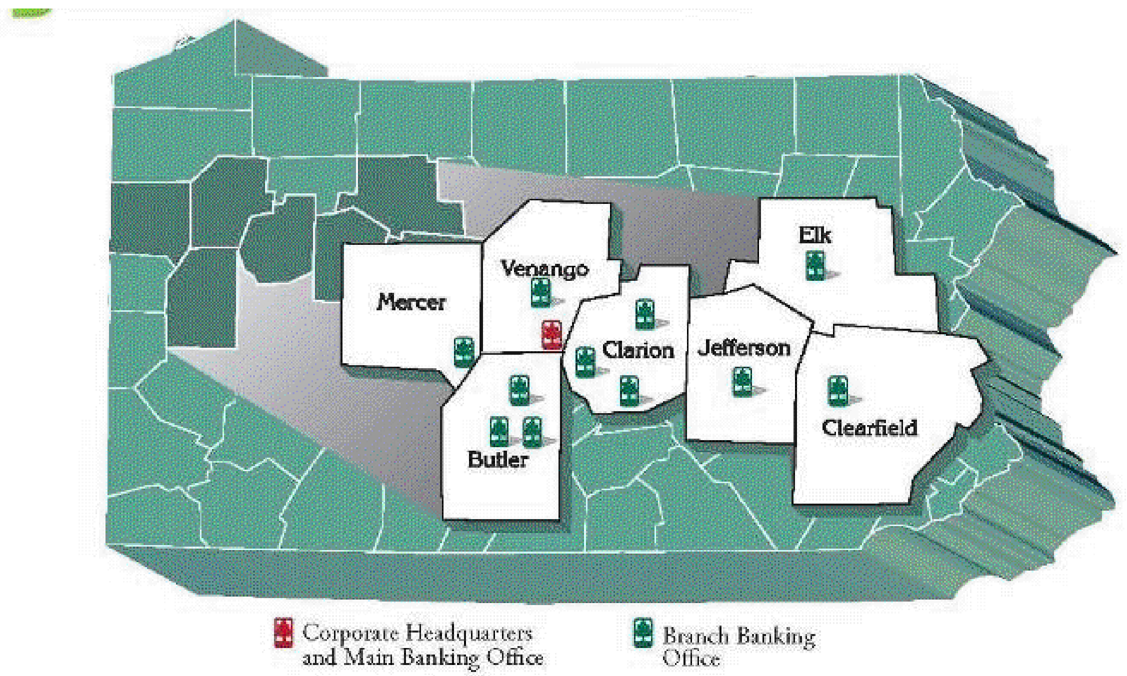
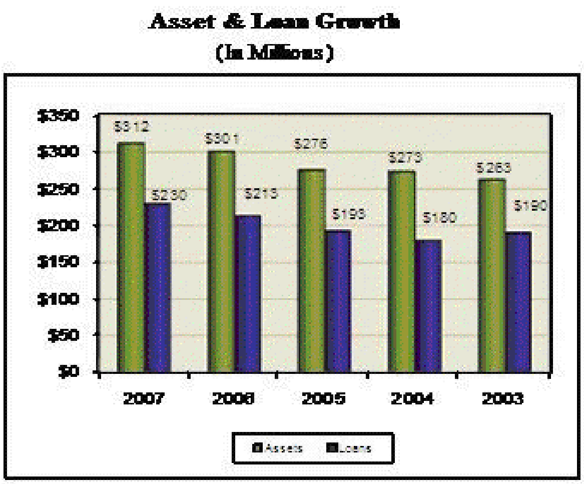
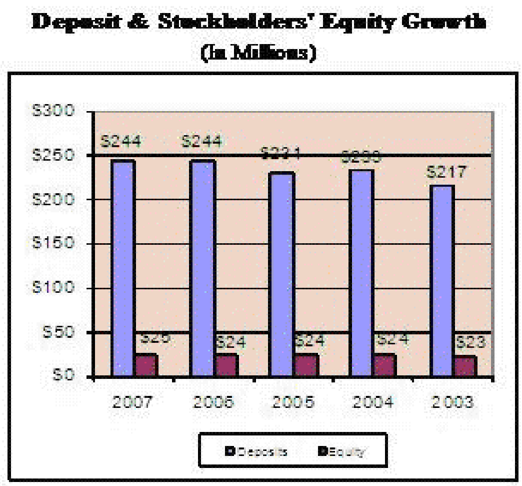


Table of Contents

Consolidated Financial Highlights
(Dollar amounts in thousands, except share data)

	At December 31,				
Balance Sheet:	2007	2006	2005	2004	2003
Total assets	$ 311,720	$ 300,560	$ 275,517	$ 273,380	$ 262,512
Loans receivable, net	229,819	213,344	192,526	179,575	190,482
Deposits	244,262	244,492	230,503	232,874	217,110
Borrowed funds	40,400	30,000	19,500	15,000	20,700
Stockholders' equity	24,703	23,917	23,615	23,616	22,655
Stockholders' equity per common share	$ 19.48	$ 18.86	$ 18.63	$ 18.63	$ 17.87
Market value per common share	$ 25.75	$ 29.25	$ 26.60	$ 26.25	$ 25.75
Common shares outstanding	1,267,835	1,267,835	1,267,835	1,267,835	1,267,835
Income Statement:					
Net interest income	$ 9,969	$ 9,291	$ 9,304	$ 8,734	$ 9,308
Noninterest income	2,943	2,934	3,317	2,535	1,785
Net income	2,697	1,966	2,573	2,557	2,492
Basic and diluted earnings per common share	$ 2.13	$ 1.55	$ 2.03	$ 2.02	$ 1.91
Cash dividends per common share	$ 1.54	$ 1.10	$ 1.02	$ 0.94	$ 1.11
Key Ratios:					
Return on average assets	0.90%	0.69%	0.94%	0.96%	0.99%
Return on average equity	11.13%	8.28%	10.69%	11.08%	10.96%
Net interest margin	3.73%	3.68%	3.82%	3.71%	4.18%
Non-performing assets to total assets	0.35%	0.65%	0.57%	0.33%	0.52%
Efficiency ratio	68.66%	74.18%	69.72%	67.11%	64.16%





William C. Marsh and David L. Cox

Dear Fellow Shareholder:

During a period of internal transition and growth and external market turmoil for the financial services industry, Emclaire Financial Corp. and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton, delivered record financial performance in 2007. We continue to prove that an independent community bank headquartered in rural Western Pennsylvania can consistently realize sound returns for shareholders, provide safe and competitive banking services for the customers and communities we serve, and offer promising career opportunities for our employees.

In recent years, your board of directors and management team have set forth certain broad objectives and strategies to continue to move the Corporation forward and enhance financial and operational performance. These broad objectives encompass profitably growing our financial institution while managing risk and holding true to the culture and tradition that has brought us to where we are today and expect to be in the future. Herein we will set forth how we successfully executed these strategies of profitability, growth, quality and culture to achieve our record financial results for 2007 while persisting to build a first-class organization

Profitability

The Corporation's financial success during 2007 and in recent years is reflected in our record earnings and the positive performance of our common stock.

Earnings. The Corporation realized consolidated net income of $2.7 million or $2.13 per share for 2007, versus $2.0 million or $1.55 per share for 2006. The 2007 results reflected a return on average equity of 11.13%. While results for 2006 included certain one-time charges associated with strategic reorganization initiatives undertaken in that year, the Corporation experienced improved core financial performance through increased net interest and noninterest income and by controlling noninterest expenses between 2007 and 2006.

Net interest income increased $678,000 to $10.0 million for 2007 compared to $9.3 million for 2006. This 7.3% increase can be attributed to continued growth in the Bank's loan portfolios, particularly commercial loans, and disciplined asset liability management practices. These practices included regimented pricing of loan and deposit products and a tactical focus on maintaining core deposit accounts. This growth and these initiatives provided for an increase in the Corporation's net interest margin to 3.73% for 2007 versus 3.68% for 2006. This improvement occurred during a period when the market interest rate yield curve was relatively flat to negatively inverted, an extremely difficult rate environment in which to manage a financial institution's margins.

Excluding security sale gains, which we consider non-recurring income, noninterest revenues increased $202,000 or 8.0% between 2007 and the prior year. As we continue to explore ways to diversify our revenue streams and mitigate our reliance on net interest revenues, we have experienced increases in both customer service fees and financial services division commissions.

Excluding consideration of the one-time 2006 reorganization charges, the Corporation experienced only a modest increase in noninterest expenses of $314,000 or 3.5% between 2007 and the prior year. During 2007, we realized some of the ongoing savings as a result of the 2006 reorganization initiatives while focusing on controlling all expenses. Operating expenses increased primarily as a result of the opening of the new Cranberry office in late 2006 and professional fees associated with required Sarbanes-Oxley compliance initiatives pursued during 2007.

Shareholder Letter
continued

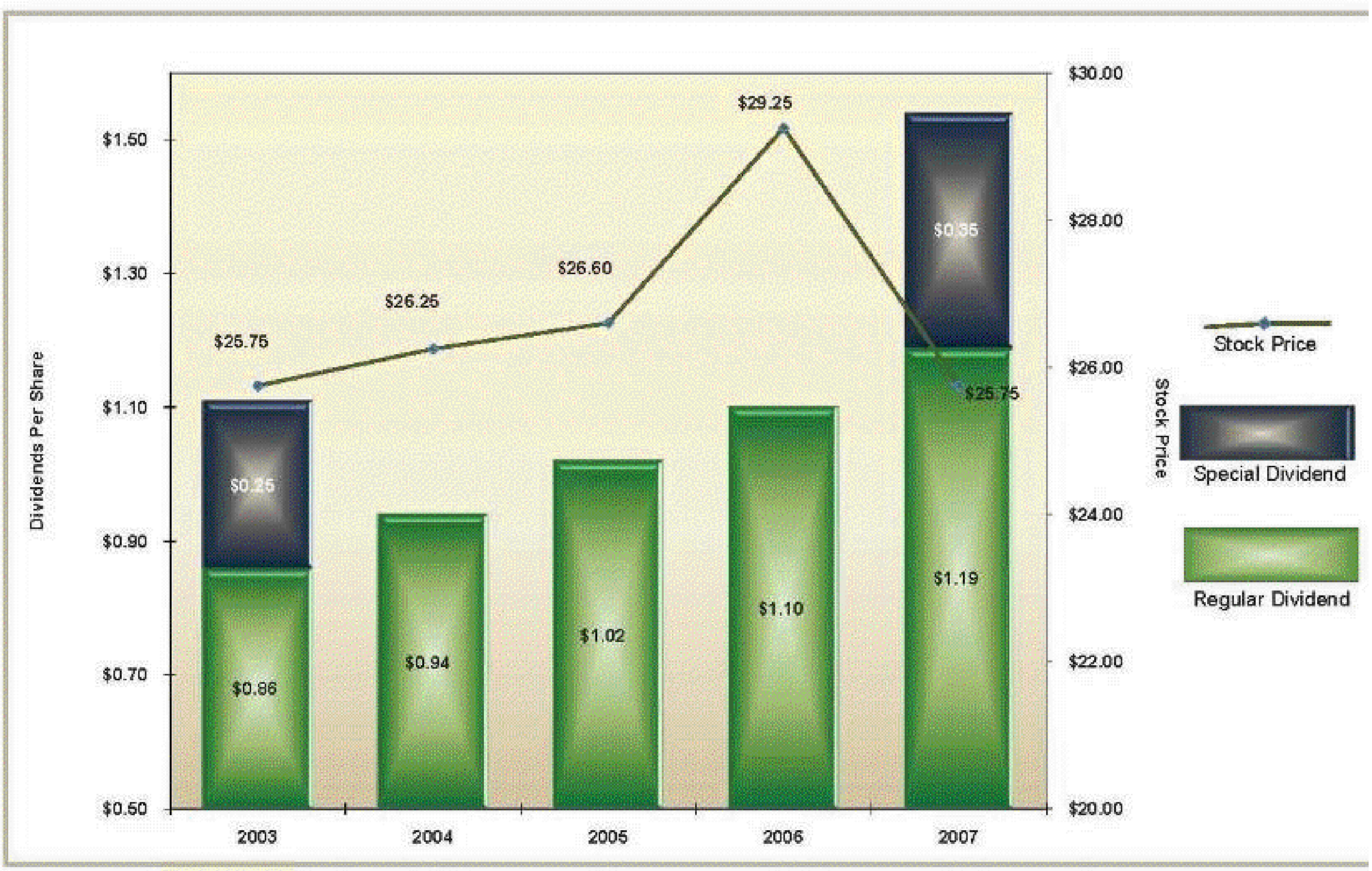
We spent much of 2007 focused on increasing core revenues while controlling operating costs. This focus will continue as we seek new opportunities to efficiently deliver new and traditional banking services.

Stock Performance. One of the Corporation's cornerstone goals is to be a profitable and growth-oriented entity that is committed to quality and building value for our stockholders. As an example, if you invested $1,000 in the Corporation's common stock five years ago, at year end 2002, and reinvested cash dividends, the value of your original investment would have increased more than 46% to $1,462 by December 31, 2007. This represents a 9.2% average annual return over that period.

While 2007's turbulent financial markets saw declines in the values of stock prices of banks and other financial institutions in excess of 30%, the Corporation's common stock did not see this significant drop in value and ended the year at a modest 12% decline from the closing price at the end of 2006.

Since 2002, we have increased our regular annual cash dividend on our common stock by more than 38% to $1.19 per share for 2007 compared to $0.86 per common share in 2002. Regular cash dividends increased 8% between 2007 and 2006. In connection with our record financial performance in 2007 and our ongoing capital management initiatives, during the fourth quarter we declared and paid a special cash dividend of $0.35 per common share. This is the third special cash dividend that we have paid since 2001; in addition to the 2007 special dividend, we paid a special cash dividend of $0.25 per share in 2002 and again in 2003.

We are proud of our overall stock performance and our favorable dividend policy resulting from our solid core earnings. While we build value, we intend to pursue controlled growth and prudent business practices to continue to provide a safe investment alternative with positive market returns.



Common Stock and Dividend Performance

Growth

We have and will continue to pursue growth on all fronts, not only internally through organic balance sheet growth in loans and deposits, but through expanding our branch network. The Corporation continues to explore expansion of our core banking business through the acquisition of branches and smaller institutions, expanding our financial services division and investigating other financial services delivery channels and businesses.

Balance Sheet Growth. For the year ended December 31, 2007, we experienced modest asset growth with total assets reaching $311.7 million at year end. The $11.2 million or 3.7% increase in assets was principally driven by loan growth funded by borrowed funds and, to a lesser extent, the employment of cash.

Customer deposits remained relatively flat during 2007 ending the year at $244.3 million as we sought to eliminate higher priced less profitable certificate of deposit accounts and replace these with core demand deposit accounts. The decline in certificate accounts of $10.0 million during the year was offset by increases in noninterest bearing and interest bearing demand deposits of $3.0 million and $6.7 million, respectively. During the year, we sought to expand existing customer balances through cross-selling and negotiated pricing on relationship accounts. We experienced demand deposit customer growth in existing branches and in our new Cranberry office where we cultivated new deposits of $3.1 million. This new office has grown to $6.3 million in deposits since opening in the fourth quarter of 2006.

We remain successful at lending within the markets we serve and during 2007 expanded all loan portfolios. During the year, all classes of loans grew as we continued our shift to more profitable commercial lending. The Corporation's total loans ended the year at $229.8 million versus $213.3 million at year end 2006.

Our corporate banking group increased commercial real estate loans $10.5 million or 17.1% to $71.6 million at December 31, 2007. Commercial business loans ended the year at $35.6 million up $978,000 from $34.6 million at year end 2006. This growth was the result of focused in-market relationship lending efforts by our commercial lending and branch banking teams. At December 31, 2007, commercial loans comprised 47% of the Bank's total loan portfolios compared to 29% at December 31, 2001. This successful shift has been a direct result of our strategies to identify and expand key business relationships in all of our markets. While we still consider consumer lending through our branch network as one key to growth, our accomplishments in business lending have proven more profitable.

Our consumer loan portfolios reached record levels as well in 2007, as residential first mortgage, home equity and installment loans ended the year at $65.7 million, $49.4 million and $9.7 million, respectively, up 1.6%, 4.4% and 26.2%, respectively. This excludes $13.0 million of off-balance sheet loans that we have originated and service at December 31, 2007. We experienced nice growth in our installment loan portfolio given a successful automobile loan promotion during the third and fourth quarters of 2007.

New Branch Offices. In November 2006, we opened our eleventh branch office in the Township of Cranberry, Pennsylvania. Since inception, this office has generated new consumer loans of $3.1 million and deposits of $6.3 million. This office has provided us with additional market coverage in our home county, Venango County, and has provided a platform for further commercial business development. During 2007, our corporate banking division originated $2.1 million in commercial loans through this office.

In April 2008, we will open our twelfth office in Grove City, Pennsylvania with high expectations. Strategically expanding to the Grove City area makes sense in a number of regards. This market is contiguous to the Bank's existing markets, there is an opportunity to penetrate current banking market share, particularly with deposits, as the need for a community bank presence exists and this expansion moves us closer to other growing communities in Western Pennsylvania.

The new banking office located in Grove City, Pennsylvania.

It is important to note that we continue to improve core profitability and operating efficiencies while expanding and investing in de novo branch offices. There are fundamental startup operating costs associated with the opening of each new office. Some of these costs are one-time, but ongoing period costs remain, and we estimate that it takes three to five years for a new office to break even in the markets that we operate. It takes this time to generate loans and deposits to levels that cover basic office working expenses. It is important to note that we are improving overall consolidated profitability while covering these startup costs and investing in advantageous expansion.

Quality

While continually looking towards profitable growth, we remain grounded by maintaining a culture of sound policies, procedures and systems to promote the highest in asset quality, internal controls and integrity.

We remained insulated from the well-chronicled national market conditions that impacted the overall financial services industry during 2007. The Bank has never provided sub-prime mortgage products and for the most part rural and Western Pennsylvania did not experience the sub-prime or real estate crises experienced in other parts of the country.

Asset Quality. Not only did we continue to realize stable growth in all loan portfolios, the credit quality of these portfolios remained strong as measured by any industry standards. The ratio of non-performing assets to total assets was a mere 0.35%, and the allowance for loan losses to non-performing loans provided coverage of 227%, at December 31, 2007. We view the quality of our loan portfolio, including the systems surrounding the loan origination and monitoring processes, as one of the true ideals of the Corporation. Our credit culture and corresponding training are diligently pursued and part of the way we lend.

Compliance. During the year, we complied with the early requirements of Sarbanes-Oxley section 404 for non-accelerated filers. We also significantly enhanced our compliance function by establishing an internal compliance council whereby all internal functional areas are represented to address compliance requirements for corresponding banking disciplines. We made advances in core business processes by improving how we utilize our information technology systems. These initiatives will continue in 2008 and beyond as we seek to better serve our customers and support deposit and lending delivery channels.

Sound systems, controls and asset quality management are the foundation for our success.

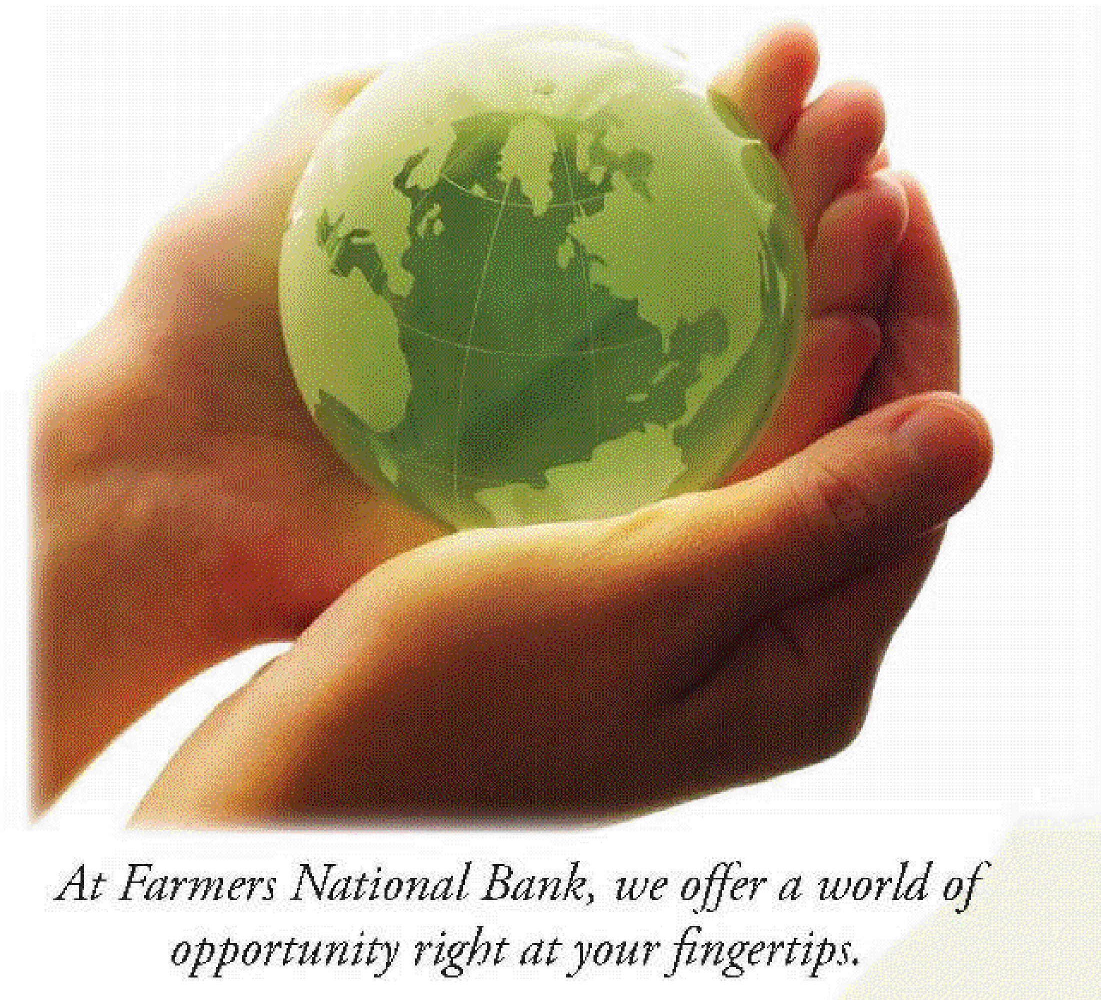
Integrity. We have consistently conducted our business with honor and integrity and do not assume unreasonable risks, regardless of the possible rewards. Integrity and attention to quality through sound systems, controls and asset quality management are the Corporation's foundation for current and future success.

Culture

Much of our effort in 2007 was focused on proactive succession planning, building an experienced management team, marketing initiatives, staff development and community involvement activities.

Succession. In June 2007, the Corporation announced a management transition whereby William C. Marsh was named President and Chief Executive Officer of the Bank. Mr. Marsh will remain as Treasurer and Chief Financial Officer of the Corporation and David L. Cox will serve as Chairman of the Board of the Bank and continue in his role with the Corporation. Mr. Marsh's promotion from within will facilitate the Corporation's long term expansion plan by sharing executive responsibilities and permitting the team to focus on growth and strategic initiatives as well as management of the daily operations of the Bank.

Management Team. We have assembled an experienced executive management team capable of responding to daily challenges while focusing on strategic initiatives. Senior Vice President, Chief Lending Officer, Raymond M. Lawton, continues to successfully manage the delicate balance between loan growth and asset quality. He has created a credit culture that has positioned the Bank to navigate safely through a turbulent mortgage market. Senior Vice President, Operations, Kathleen L. Buzzard, transitioned from Retail Banking to Operations mid-year in 2007. Her extensive knowledge of branch banking, deposit products, and technology has proved valuable in not only improving operating efficiencies, but also in team building between the Operations Center and Branch Banking. Paige H. Turk was recently promoted to Senior Vice President, Director of Human Resources and Marketing. Her ability to communicate clearly and consistently to employees and customers has positioned the human resources and marketing functions to perform at a highly integrated level resulting in enhanced customer relationship management.



Marketing. Our definition and story - our brand, will also significantly impact the management of customer relationships. Our brand speaks to our purpose and is communicated in a way that will connect with consumer's standards so they value their affiliation with the Bank. Our marketing plan is to keep our brand fresh and compelling in a competitive market. That, combined with a customer service standard that is rooted in professional competence, strong product knowledge, and a commitment to engage customers in enduring relationships, has resulted in a consistent, credible and exemplary brand statement. Our look may be fresh and updated, but our roots run deep and will remain firmly planted in integrity and trust.

Staff Development/Training. We continue to invest in employee development and training at all levels of the organization. Service Training and Leadership Development are key initiatives to support the continuation of accountability and excellent performance. We successfully enhanced the performance planning and review process for all employees during 2007 to include higher levels of performance feedback, coaching, communication of standards and ongoing position documentation. Our goal is to sustain a culture where communication and motivation drive accountability and excellence in performance.

Community Involvement. We believe that our responsibility to train individuals and provide meaningful information carries over into our communities as well. We are proud to provide community education programs on Fraud Prevention, Get Smart about Credit, Teaching Children to Save, and Tips for First-Time Home Buyers. We will continue to research and present relevant educational programs to assist our customers, neighbors and communities. Our responsibility to support the communities we serve is also reflected in a host of community involvement activities ranging from food bank collections to raising money for families or individuals in need. We are successful not only because our financial statements reflect stability and continued profitability, but also because we have helped to make the communities we call home responsive, stable and strong.

In late 2007, the Bank lost a valuable advocate and supporter when Bernadette Crooks passed away on New Year's Eve. Bernadette served on the board of the Corporation and the Bank for almost twenty years before retiring in 2004. She will clearly remain part of the Bank's rich history. We will miss Bernadette's dedication, attention to detail and interest in all things Farmers. With respect, we express our deepest condolences to her family and closest friends.

We strive to provide and enhance shareholder value and believe strongly that there is a place for an independent community bank with long-term shareholder growth prospects. We will never waiver from our commitment to providing the very best in community banking. On behalf of your management team, the staff and Board of Directors, we thank you for your ongoing investment and support.

Very truly yours,

David L. Cox

Emclaire Financial Corp
Chairman of the Board, President and
Chief Executive Officer

Farmers National Bank of Emlenton
Chairman of the Board
Chief Executive Officer

William C. Marsh

Emclaire Financial Corp
Treasurer and
Chief Financial Officer

Farmers National Bank of Emlenton
President and

February 27, 2008

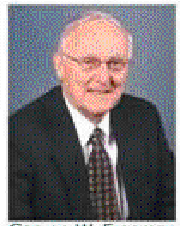
Board of Directors and Executive Management

Emclaire Financial Corp. and Farmers National Bank of Emlenton

Board of Directors

Ronald L. Ashbaugh
Retired President
Emclaire Financial Corp.
Farmers National Bank

James M. Crooks
President and Owner
Crooks Clothing Co.



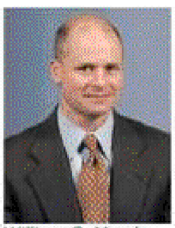
George W. Freeman
Owner
Freeman's Tree Farm

David L. Cox
Chairman, President and CEO
Emclaire Financial Corp.
Chairman
Farmers National Bank

Mark A. Freemer, CPA
Partner
CLYDE, FERRARO & Co. LLP

Robert L. Hunter
President
Hunter Truck Sales and Service
Hunter Leasing

J. Michael King
Senior Attorney
Lyon, King & Schreffler
Attorneys at Law



William C. Marsh
Treasurer and Chief Financial Officer
Emclaire Financial Corp.
President and Chief Executive Officer
Farmers National Bank

John B. Mason
President
H.B. Beels & Sons, Inc.

Brian C. McCarrier, CPA
President
Interstate Pipe and Supply

Executive Management Team

Farmers National Bank of Emlenton

David L. Cox
Chairman

William C. Marsh
President and Chief Executive Officer

Raymond M. Lawton
Senior Vice President
Chief Lending Officer

Kathleen L. Buzzard
Senior Vice President
Operations

Paige H. Turk
Senior Vice President
Human Resources & Marketing

In Memoriam

Bernadette H. Crooks

Former Board member, Bernadette H. Crooks, passed away on December 31, 2007. Mrs. Crooks served on the Bank Board since June of 1985, and on the Holding Company Board since 1989. Mrs. Crooks retired from her position in September of 2004 after serving 19 years. The Board and Management would like to honor Mrs. Crooks in her passing.

Selected Consolidated Financial Highlights
(Dollar amounts in thousands, except share data)

Financial Condition Data	As of December 31, 2007	2006	2005	2004	2003
Total assets	**$ 311,720**	$ 300,560	$ 275,517	$ 273,380	$ 262,512
Securities	**51,919**	51,774	56,304	63,362	49,162
Loans receivable, net	**229,819**	213,344	192,526	179,575	190,482
Deposits	**244,262**	244,492	230,503	232,874	217,110
Borrowed funds	**40,400**	30,000	19,500	15,000	20,700
Stockholders' equity	**24,703**	23,917	23,615	23,616	22,655
Stockholders' equity per common share	**$ 19.48**	$ 18.86	$ 18.63	$ 18.63	$ 17.87
Tangible stockholders' equity per common share	**$ 18.36**	$ 17.74	$ 17.50	$ 17.48	$ 16.70

Operations Data	For the year ended December 31, 2007	2006	2005	2004	2003
Interest income	**$ 17,855**	$ 16,259	$ 14,877	$ 13,953	$ 14,209
Interest expense	**7,886**	6,968	5,573	5,219	4,901
Net interest income	**9,969**	9,291	9,304	8,734	9,308
Provision for loan losses	**256**	358	205	290	330
Net interest income after provision for loan losses	**9,713**	8,933	9,099	8,444	8,978
Noninterest income	**2,943**	2,934	3,317	2,535	1,785
Noninterest expense	**9,164**	9,409	9,146	7,909	7,522
Income before income taxes	**3,492**	2,458	3,270	3,070	3,241
Provision for income taxes	**795**	492	697	513	749
Net income	**$ 2,697**	$ 1,966	$ 2,573	$ 2,557	$ 2,492
Average common shares outstanding	**1,267,835**	1,267,835	1,267,835	1,267,835	1,301,714
Basic and diluted earnings per share	**$ 2.13**	$ 1.55	$ 2.03	$ 2.02	$ 1.91
Dividends per share (1)	**$ 1.54**	$ 1.10	$ 1.02	$ 0.94	$ 1.11

Other Data	As of or for the year ended December 31, 2007	2006	2005	2004	2003
Performance Ratios					
Return on average assets	**0.90%**	0.69%	0.94%	0.96%	0.99%
Return on average equity	**11.13%**	8.28%	10.69%	11.08%	10.96%
Yield on interest-earning assets (2)	**6.55%**	6.30%	6.00%	5.81%	6.28%
Cost of interest-bearing liabilities	**3.46%**	3.23%	2.70%	2.57%	2.56%
Cost of funds	**2.89%**	2.69%	2.24%	2.15%	2.16%
Interest rate spread (2)	**3.09%**	3.08%	3.30%	3.24%	3.72%
Net interest margin (2)	**3.73%**	3.68%	3.82%	3.71%	4.18%
Efficiency ratio (2) (3)	**68.66%**	74.18%	69.72%	67.11%	64.16%
Noninterest expense to average assets	**3.06%**	3.30%	3.33%	2.96%	2.99%
Interest-earning assets to average assets	**93.13%**	92.89%	92.82%	92.86%	92.69%
Loans to deposits	**94.09%**	87.26%	83.52%	77.11%	87.74%
Dividend payout ratio (1)	**72.39%**	70.93%	50.25%	46.61%	57.98%
Asset Quality Ratios					
Non-performing loans to total loans	**0.41%**	0.85%	0.75%	0.46%	0.69%
Non-performing assets to total assets	**0.35%**	0.65%	0.57%	0.33%	0.52%
Allowance for loan losses to total loans	**0.93%**	0.94%	0.96%	1.00%	0.92%
Allowance for loan losses to non-performing loans	**226.58%**	110.54%	128.72%	215.48%	133.71%
Capital Ratios					
Stockholders' equity to assets	**7.92%**	7.96%	8.57%	8.64%	8.63%
Tangible stockholders' equity to tangible assets	**7.50%**	7.52%	8.09%	8.15%	8.11%
Average equity to average assets	**8.08%**	8.32%	8.75%	8.63%	9.02%

(1) Includes special cash dividend or $0.35 per share and $0.25 per share paid in 2007 and 2003, respectively.
(2) Interest income utilized in calculation is on a fully tax equivalent basis.
(3) The efficiency ratio is calculated by dividing noninterest expense (less intangible amortization) by net interest income (on a fully tax equivalent basis) and noninterest income. The efficiency ratio gives a measure of how effectively a financial institution is operating.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

The following discussion and analysis represents a review of Emclaire Financial Corp.'s consolidated financial condition and results of operations. This review should be read in conjunction with the consolidated financial statements presented later in this report.

Business Summary

Emclaire Financial Corp. (the Corporation) is a Pennsylvania corporation and bank holding company that provides a full range of retail and commercial financial products and services to customers in Western Pennsylvania through its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the Bank).

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank operates through a network of twelve offices in Venango, Butler, Clarion, Clearfield, Elk, Jefferson and Mercer counties, Pennsylvania. The Corporation and the Bank are headquartered in Emlenton, Pennsylvania. Farmers National Financial Services, formed in 2004, is a division of the Bank that offers retail brokerage and other investment services to customers in the Bank's market area.

The Bank is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC), which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation (FDIC), which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland (FRB) and the Federal Home Loan Bank of Pittsburgh (FHLB). The Corporation, as a registered bank holding company, is subject to regulation by the Federal Reserve Board.

Overview

The Corporation reported an increase in income for 2007 as consolidated net income amounted to $2.7 million or $2.13 per share, compared to net income of $2.0 million or $1.55 per share for 2006.

The increase in net income of $731,000 or 37.2% for the year ended December 31, 2007 was primarily due to an increase in net interest income and decreases in the provision for loan losses and noninterest expense, partially offset by an increase in the provision for income taxes. Net interest income increased as a result of growth in the loan portfolio, particularly with respect to commercial loans. Noninterest expense decreased as certain charges associated with strategic reorganization initiatives were experienced in 2006. These 2006 charges included $375,000 in pension expense for employees who took part in an early retirement program as well as $184,000 for severance, other benefits and legal costs associated with the reorganization. Excluding these one-time reorganization charges, noninterest expense increased modestly primarily as a result of the opening of a new banking office in November 2006 and professional fees associated with Sarbanes-Oxley compliance. The provision for income taxes increased due to increased pre-tax income.

During the year ended December 31, 2007, the Corporation experienced asset growth of 3.7% as total assets increased $11.2 million or 3.7% to $311.7 million at year end from $300.6 million at December 31, 2006. This asset growth was driven by total loan portfolio growth of $16.5 million or 7.7% funded by a decrease in cash and equivalents of $6.2 million or 37.3% and an increase in borrowed funds of $10.4 million or 34.7%.

Changes in Financial Condition

Total assets increased $11.2 million or 3.7% to $311.7 million at December 31, 2007 from $300.6 million at December 31, 2006. This increase was primarily due to increases in loans receivable of $16.5 million, partially offset by a decrease in cash and equivalents of $6.2 million.

The increase in the Corporation's total assets was primarily funded by increases in total liabilities of $10.4 million or 3.7% and total stockholders' equity of $786,000 or 3.3%. The increase in total liabilities was primarily due to an increase in borrowed funds of $10.4 million or 34.7%.

Cash and cash equivalents. These accounts decreased a combined $6.2 million to $10.5 million at December 31, 2007 from $16.7 million at December 31, 2006. These accounts are typically increased by net operating results, deposits by customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds. Decreases result from customer deposit withdrawals, new loan originations or other loan fundings, security purchases, repayments of borrowed funds and cash dividends to stockholders. The Corporation maintained a lower balance of cash at year end December 31, 2007 than at the prior year end primarily as a result of loan growth experienced during the year and the purchase of commercial paper late in the year.

Securities. Securities increased $145,000 or 0.3% to $51.9 million at December 31, 2007 from $51.8 million at December 31, 2006. The overall increase in securities for the year resulted from the purchase of commercial paper late in the year, partially offset by management deploying funds from security maturities, calls and repayments into loan growth during the year.

Loans receivable. Net loans receivable increased $16.5 million or 7.7% to $229.8 million at December 31, 2007 from $213.3 million at December 31, 2006, resulting from strong loan production of $82.0 million during 2007. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Commercial real estate loans increased $10.5 million or 17.1% and commercial business loans increased $1.0 million or 2.8%. This growth in commercial loans can be attributed to the production success of the Bank's Corporate Banking Group established during 2004 and the related continued market penetration in larger communities served by the Bank.

Also contributing to the growth in the loan portfolio was an increase in home equity loans of $2.1 million or 4.4% due primarily to home equity loan campaigns put forth during the year. In addition, consumer loans increased $2.0 million or 26.2% due to an auto loan campaign during the year. Residential first mortgage loans increased $1.0 million or 1.6% during the year, net of $1.7 million of loans sold, due to strong residential mortgage production of $11.6 million.

Non-performing assets. Non-performing assets include non-accrual loans, loans 90 days past due and still accruing, and real estate acquired through foreclosure (REO). Non-performing assets decreased $858,000 to $1.1 million or 0.35% of total assets at December 31, 2007 from $1.9 million or 0.65% of total assets at December 31, 2006 primarily as the result of the full payoff of one larger credit relationship during the year. Non-performing assets consisted of non-performing loans and REO of $1.0 million and $129,000, respectively, at December 31, 2007 and $1.8 million and $98,000, respectively, at December 31, 2006. At December 31, 2007 non-performing assets consisted primarily of residential mortgage loans.

Federal bank stocks. Federal bank stocks were comprised of FHLB stock and FRB stock of $2.3 million and $333,000, respectively, at December 31, 2007. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships between the Corporation and the banks. The increase at December 31, 2007 compared to December 31, 2006 can be attributed to an increase in FHLB borrowings during 2007.

Bank-owned life insurance (BOLI). The Corporation maintains single premium life insurance policies on twenty current and former officers and employees of the Bank. In addition to providing life insurance coverage, whereby the Bank as well as the officers and employees receive life insurance benefits, the appreciation of the cash surrender value of the BOLI will serve to offset and finance existing and future employee benefit costs. Increases in this account during 2007 were associated with the increase in the cash surrender value of the policies, partially offset by certain administrative expenses.

Premises and equipment. Premises and equipment decreased $54,000 to $7.9 million at December 31, 2007 from $8.0 million at December 31, 2006. The overall decrease in premises and equipment during the year was due to the normal depreciation of fixed assets of $663,000, partially offset by capital expenditures of $609,000. Capital expenditures during the year consisted primarily of investments in technology and improvements made at the full service banking facility purchased in December of 2006.

Deposits. Total deposits decreased $230,000 to $244.3 million at December 31, 2007 from $244.5 million at December 31, 2006. While noninterest-bearing deposits increased $3.1 million or 7.0% during the year, interest-bearing deposits decreased by $3.3 million or 1.6%. This change in the deposit composition resulted principally from the Corporation's focus on maintaining core deposit accounts and establishing strong relationship accounts while allowing certain high rate certificates of deposit to mature. In addition, the Bank opened a new office in November 2006. At December 31, 2007, this office had total deposits of $6.3 million with $3.1 million generated in 2007. Of these deposits, $625,000 is noninterest-bearing and $5.7 million is interest-bearing.

Borrowed funds. Borrowed funds, or advances from the FHLB, increased $10.4 million or 34.7% to $40.4 million at December 31, 2007 from $30.0 million at December 31, 2006. The increase in advances was the result of management matching $5.0 million in long-term borrowed funds with loans originated during the third quarter of 2007. In addition, short-term borrowings of $5.4 million were utilized in funding loan growth and purchasing commercial paper late in the year.

Changes in Results of Operations

The Corporation reported net income of $2.7 million, $2.0 million and $2.6 million in 2007, 2006 and 2005, respectively. The following "Average Balance Sheet and Yield/Rate Analysis" and "Analysis of Changes in Net Interest Income" tables should be utilized in conjunction with the discussion of the net interest income and interest expense components of net income.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

(Dollar amounts in thousands)	Year ended December 31,								
	2007			2006			2005		
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:									
Loans, taxable	$ 215,771	$ 15,006	6.95%	$ 200,499	$ 13,554	6.76%	$ 181,109	$ 12,011	6.63%
Loans, tax-exempt	6,286	407	6.47%	6,781	438	6.46%	7,052	454	6.44%
Total loans receivable	222,057	15,413	6.94%	207,280	13,992	6.75%	188,161	12,465	6.62%
Securities, taxable	36,882	1,571	4.26%	37,944	1,481	3.90%	47,075	1,714	3.64%
Securities, tax-exempt	14,750	996	6.75%	15,250	1,013	6.64%	15,468	1,012	6.53%
Total securities	51,632	2,567	4.97%	53,194	2,494	4.69%	62,543	2,726	4.36%
Interest-earning deposits with banks	3,209	166	5.17%	2,608	129	4.95%	2,978	81	2.72%
Federal bank stocks	2,315	144	6.22%	1,945	94	4.83%	1,633	58	3.55%
Total interest-earning cash equivalents	5,524	310	5.61%	4,553	223	4.90%	4,611	139	3.01%
Total interest-earning assets	**279,213**	**18,290**	**6.55%**	**265,027**	**16,709**	**6.30%**	**255,315**	**15,330**	**6.00%**
Cash and due from banks	5,952			6,922			7,399		
Other noninterest-earning assets	14,649			13,376			12,340		
Total Assets	$ 299,814			$ 285,325			$ 275,054		
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 73,364	956	1.30%	$ 72,584	770	1.06%	$ 79,063	570	0.72%
Time deposits	121,889	5,484	4.50%	120,544	5,197	4.31%	110,829	4,324	3.90%
Total interest-bearing deposits	195,253	6,440	3.30%	193,128	5,967	3.09%	189,892	4,894	2.58%
Borrowed funds, short-term	1,208	33	2.73%	1,147	53	4.62%	1,199	50	4.17%
Borrowed funds, long-term	31,233	1,413	4.52%	21,521	948	4.40%	15,000	629	4.19%
Total borrowed funds	32,441	1,446	4.46%	22,668	1,001	4.42%	16,199	679	4.19%
Total interest-bearing liabilities	**227,694**	**7,886**	**3.46%**	**215,796**	**6,968**	**3.23%**	**206,091**	**5,573**	**2.70%**
Noninterest-bearing demand deposits	45,086	-	-	43,556	-	-	42,450	-	-
Funding and cost of funds	**272,780**	**7,886**	**2.89%**	**259,352**	**6,968**	**2.69%**	**248,541**	**5,573**	**2.24%**
Other noninterest-bearing liabilities	2,810			2,224			2,452		
Total Liabilities	275,590			261,576			250,993		
Stockholders' Equity	24,224			23,749			24,061		
Total Liabilities and Stockholders' Equity	$ 299,814			$ 285,325			$ 275,054		
Net interest income		**$ 10,404**			**$ 9,741**			**$ 9,757**	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			**3.09%**			**3.08%**			**3.30%**
Net interest margin (net interest income as a percentage of average interest-earning assets)			**3.73%**			**3.68%**			**3.82%**

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	**2007 versus 2006**			**2006 versus 2005**		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans	$ 1,018	$ 403	$ 1,421	$ 1,287	$ 240	$ 1,527
Securities	(75)	148	73	(428)	196	(232)
Interest-earning deposits with banks	31	6	37	(11)	59	48
Federal bank stocks	20	30	50	13	23	36
Total interest-earning assets	994	587	1,581	861	518	1,379
Interest expense:						
Deposits	66	407	473	85	988	1,073
Borrowed funds	436	9	445	284	38	322
Total interest-bearing liabilities	502	416	918	369	1,026	1,395
Net interest income	$ 492	$ 171	$ 663	$ 492	$ (508)	$ (16)

2007 Results Compared to 2006 Results

The Corporation reported net income of $2.7 million and $2.0 million for 2007 and 2006, respectively. The $731,000 or 37.2% increase in net income can primarily be attributed to an increase in net interest income of $678,000 and decreases in the provision for loan losses and noninterest expense of $102,000 and $245,000, respectively. Partially offsetting these favorable comparisons, the provision for income taxes increased $303,000.

In addition, 2006 operating results were adversely impacted as the Corporation realized one-time charges associated with strategic reorganization initiatives. Excluding these one-time charges, the Corporation experienced a modest income in noninterest expense for 2007.

Net interest income. The primary source of the Corporation's revenue is net interest income. Net interest income is the difference between interest income on earning assets such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income increased $663,000 to $10.4 million for 2007, compared to $9.7 million for 2006. This increase in net interest income can be attributed to an increase in tax equivalent interest income of $1.6 million partially offset by an increase in interest expense of $918,000.

Interest income. Tax equivalent interest income increased $1.6 million or 9.5% to $18.3 million for 2007, compared to $16.7 million for 2006. This increase can be attributed to an increase in interest earned on loans, securities, interest-earning deposits and federal bank stocks of $1.4 million, $73,000, $37,000 and $50,000, respectively.

Tax equivalent interest earned on loans receivable increased $1.4 million or 10.2% to $15.4 million for 2007, compared to $14.0 million for 2006. During that time, average loans increased $14.8 million or 7.1%, accounting for $1.0 million in additional loan interest income. The increase in average loans outstanding can be attributed to the aforementioned commercial and home equity loan growth experienced during 2007 as well as the positive impact in 2007 of loan growth in 2006. Additionally, the interest rate earned on loans increased as market interest rates for lending were more favorable in 2007 compared to 2006 and the yield on loans increased 19 basis points to 6.94% for 2007, versus 6.75% for 2006 contributing $403,000 in additional interest income. Contributing to the increase in the yield on loans between the periods was the collection of $125,000 of interest and late fees due associated with the payoff of previously non-performing commercial loans during the year that had been on non-accrual status. In connection with the loan payoffs, the Corporation received all principal and interest due under the contractual terms of the loan agreements and interest collected was recorded as loan interest income during the year. In addition, the Corporation recognized $42,000 in prepayment fees resulting from the early payoff of a large commercial mortgage in the fourth quarter of 2007.

Tax equivalent interest earned on securities increased $73,000 or 2.9% to $2.6 million for 2007, compared to $2.5 million for 2006. The average yield on securities increased by 28 basis points as a result of certain lower yielding securities maturing. Partially offsetting the increase in interest income associated with the yield increase was the decrease in the average volume of these assets of $1.6 million or 2.9% primarily as a result of the utilization of these funds for loan growth.

Interest earned on interest-earning deposit accounts increased $37,000 to $166,000 for 2007, compared to $129,000 for 2006, as a result of a higher yield realized on higher average balances maintained. Interest earned on federal bank stocks increased $50,000 to $144,000 for 2007, compared to $94,000 for 2006 as a result of higher volume and higher yield.

Interest expense. Interest expense increased $918,000 or 13.2% to $7.9 million for 2007, compared to $7.0 million for 2006. This increase in interest expense can be attributed to an increase in interest incurred on deposits and borrowed funds of $473,000 and $445,000, respectively.

Deposit interest expense increased $473,000 or 7.9% to $6.4 million for 2007, compared to $6.0 million for 2006. This increase in deposit interest expense was principally rate driven as the cost of interest-bearing deposits increased 21 basis points to 3.30% for 2007 versus 3.09% for 2006 contributing $407,000 in additional expense. The increase in the interest rate on deposits can be attributed to the Corporation offering certain higher priced certificate products in the fourth quarter of 2006. The average volume of deposits increased by $2.1 million or 1.1% contributing an additional $66,000 in interest expense.

Interest expense on borrowed funds increased $445,000 to $1.5 million for 2007, compared to $1.0 million for 2006 due to $15.0 million of FHLB long term borrowings placed in the second and third quarters of 2006 and $5.0 million of FHLB long term borrowings placed in the fourth quarter of 2007. The Corporation utilized these borrowings primarily to fund loan growth.

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

The provision for loan losses decreased $102,000 or 28.5% to $256,000 for 2007, compared to $358,000 for 2006. The Corporation's allowance for loan losses amounted to $2.2 million or 0.93% of the Corporation's total loan portfolio at December 31, 2007, compared to $2.0 million or 0.94% at December 31, 2006. The allowance for loan losses as a percentage of non-performing loans at December 31, 2007 and 2006 was 226.6% and 110.5%, respectively. The decrease in the provision for loan losses from 2006 to 2007 was primarily due to a lower allowance for loan losses necessary in connection with the aforementioned payoff of previously non-performing large commercial loans during the year.

Noninterest income. Noninterest income includes revenue that is not related to interest rates, but rather to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, commissions on financial services, security and loan gains and losses, and earnings on BOLI. Noninterest income increased a modest $9,000, remaining stable at $2.9 million for 2007 and 2006. This increase can be primarily attributed to increases in fees and service charges, commissions on financial services, earnings on BOLI, and other noninterest income of $65,000, $40,000, $24,000 and $98,000, respectively. Partially offsetting the increase in noninterest income were decreases in gains on loan sales and gains on available for sale securities of $25,000 and $193,000, respectively. This decrease in gains on available for sale securities resulted primarily from the 2006 gains realized of $372,000 as management elected to divest a community bank stock investment. During 2007, the Corporation realized $166,000 in gains from the sale of another community bank stock investment as a result of that banks merger with a larger financial institution.

Noninterest expense. Noninterest expense decreased $245,000 or 2.6% to $9.2 million for 2007, compared to $9.4 million for 2006. This decrease in noninterest expense was comprised of decreases in compensation and employee benefits, premises and equipment and intangible amortization expense of $542,000, $48,000 and $7,000, respectively, partially offset by an increase in other expenses of $352,000.

The largest component of noninterest expense, compensation and employee benefits, decreased $542,000 or 9.6%. This decrease was primarily the result of the Corporation realizing non-recurring charges of $559,000 relating to the aforementioned reorganization during 2006. These charges included $375,000 in pension expense for employees who took part in an early retirement program as well as $184,000 for severance, other benefits and legal costs associated with the reorganization. Excluding these one-time charges, the Corporation realized a slight increase in compensation and employee benefits resulting from normal salary and wage adjustments and increases in 401(k) match expense, training expense, director's fees, incentive expense and stock option expense. Mitigating these increases was the realization of ongoing savings in salaries and wages and employee benefits resulting from the 2006 reorganization.

Premises and equipment expense decreased $48,000 or 2.9% as the Corporation focused on controlling expenses. This decrease was primarily the result of lower equipment and software depreciation. The decrease in equipment depreciation resulted from the write-off of an asset determined to be obsolete during 2006. Partially offsetting these decreases were increased occupancy costs related to a new branch location opened during the fourth quarter of 2006.

Other expense increased $352,000 or 16.5% primarily due to increases in professional fees, travel, entertainment and conferences and telephone expenses of $174,000, $43,000 and $41,000, respectively. Also contributing to this increase was an increase in other noninterest expense of $70,000 primarily consisting of increases in subscriptions, credit bureau expense, and internet banking expense of $41,000, $25,000 and $26,000, respectively. The increase in professional fees resulted primarily from fees associated with required Sarbanes-Oxley compliance initiatives pursued during 2007.

The provision for income taxes increased $303,000 or 61.6% to $795,000 for 2007, compared to $492,000 for 2006, primarily due to the increase in the Corporation's pre-tax earnings of $1.0 million. In addition, the Corporation's effective tax rate was 22.8% for 2007, compared with 20.0% for 2006.

2006 Results Compared to 2005 Results

The Corporation reported net income of $2.0 million and $2.6 million for 2006 and 2005, respectively. The $607,000 or 23.6% decrease in net income can be attributed to decreases in net interest income and noninterest income of $13,000 and $383,000, respectively, and increases in the provision for loan losses and noninterest expense of $153,000 and $263,000, respectively. Partially offsetting these unfavorable comparisons, the provision for income taxes decreased $205,000.

Net interest income. The primary source of the Corporation's revenue is net interest income. Net interest income is the difference between interest income on earning assets such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income decreased $16,000 to $9.7 million for 2006. This decrease in net interest income can be attributed to an increase in tax equivalent interest income of $1.4 million and a corresponding increase in interest expense.

Interest income. Tax equivalent interest income increased $1.4 million or 9.0% to $16.7 million for 2006, compared to $15.3 million for 2005. This increase can be attributed to an increase in interest earned on loans, interest-earning deposits and federal bank stocks of $1.5 million, $48,000 and $36,000, respectively, partially offset by a $232,000 decrease in interest earned on securities.

Tax equivalent interest earned on loans receivable increased $1.5 million or 12.2% to $14.0 million for 2006, compared to $12.5 million for 2005. During that time, average loans increased $19.1 million or 10.2%, accounting for $1.3 million in additional loan interest income. Additionally, the interest rate earned on loans increased as market interest rates for lending were more favorable in 2006 compared to 2005 and the yield on loans increased 13 basis points to 6.75% for 2006, versus 6.62% for 2005 contributing $240,000 in additional interest income. The increase in average loans outstanding can be attributed to the aforementioned commercial and home equity loan growth experienced during 2006 as well as the positive impact in 2006 of loan growth in 2005.

Tax equivalent interest earned on securities decreased $232,000 or 8.5% to $2.5 million for 2006, compared to $2.7 million for 2005. The average volume of these assets decreased $9.3 million or 14.9% primarily as a result of the utilization of these funds for loan growth. The average yield on securities increased by 33 basis points, as a result of certain lower yielding securities maturing, partially offsetting the decline in interest income associated with the volume decline.

Interest earned on interest-earning deposit accounts increased $48,000 to $129,000 for 2006, compared to $81,000 for 2005, as a result of a higher yield realized partially offset by lower average balances maintained. Interest earned on federal bank stocks increased $36,000 to $94,000 for 2006, compared to $58,000 for 2005 as a result of a higher volume and higher yield.

Interest expense. Interest expense increased $1.4 million or 25.0% to $7.0 million for 2006, compared to $5.6 million for 2005. This increase in interest expense can be attributed to an increase in interest incurred on deposits and borrowed funds of $1.1 million and $322,000, respectively.

Deposit interest expense increased $1.1 million or 21.9% to $6.0 million for 2006, compared to $4.9 million for 2005. This increase in deposit interest expense was principally rate driven as the cost of interest-bearing deposits increased 51 basis points to 3.09% for 2007 versus 2.58% for 2005 contributing $988,000 in additional expense. The average volume of deposits increased modestly by $3.2 million or 1.7% contributing to an additional $85,000 in interest expense. The increase in the interest rate on deposits can be attributed to the increase in short term market interest rates during 2006 and 2005 as well as to the Corporation offering certain higher priced certificate products during 2006.

Interest expense on borrowed funds increased $322,000 to $1.0 million for 2006, compared to $679,000 for 2005 due to $15.0 million of FHLB long term borrowings placed in the second and third quarters of 2006.

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

The provision for loan losses increased $153,000 to $358,000 for 2006, compared to $205,000 for 2005. The Corporation's allowance for loan losses amounted to $2.0 million or 0.94% of the Corporation's total loan portfolio at December 31, 2006, compared to $1.9 million or 0.96% at December 31, 2005. The allowance for loan losses as a percentage of non-performing loans at December 31, 2006 and 2005 was 110.5% and 128.7%, respectively. The increase in the provision for loan losses from 2005 to 2006 was primarily due to the aforementioned growth in the loan portfolio.

Noninterest income. Noninterest income includes items that are not related to interest rates, but rather to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, commissions on financial services, security and loan gains and losses, and earnings on BOLI. Noninterest income decreased $383,000 or 11.6% to $2.9 million for 2006, compared to $3.3 million for 2005. This decrease can be primarily attributed to a decrease in gains on the sale of securities of $457,000. This decrease resulted primarily from the 2005 gains realized of $628,000 as management elected to divest a community bank stock investment. In 2006, the Corporation realized $372,000 in gains from the sale of this particular investment. Also contributing to the decrease was a 2005 involuntary transaction that resulted from the sale of a community bank which contributed $198,000 to gains on the sale of securities. Partially offsetting the decrease in noninterest income were increases in fee and service income of $64,000 and gains on the sale of loans of $53,000 as management sold $4.0 million of 30-year fixed rate conforming mortgage loans.

Noninterest expense. Noninterest expense increased $263,000 or 2.9% to $9.4 million for 2006, compared to $9.1 million for 2005. This increase in noninterest expense is comprised of increases in compensation and employee benefits and premises and equipment of $525,000 and $26,000, respectively, partially offset by reductions in intangible amortization expense and other expenses of $24,000 and $264,000, respectively.

The largest component of noninterest expense is compensation and employee benefits. This expense increased $525,000 or 10.2%. This increase was primarily the result of the Corporation realizing charges relating to the aforementioned reorganization. These charges included $375,000 in pension expense for employees who took part in an early retirement program as well as $184,000 for severance, other benefits and legal costs associated with the reorganization.
Premises and equipment expense increased $26,000 or 1.6% as a result of increased occupancy costs related to a new drive-thru facility as well as a new branch location. Also contributing to the increase was the write-off of an asset determined to be obsolete.

Other expense decreased $264,000 or 11.0% primarily due to a decrease in telephone expenses of $155,000 as the Corporation received credit from its telephone vendor for billing errors. Also contributing to this decrease was a $203,000 write-off of amounts related to a correspondent bank reconciliation in 2005, which resulted from inefficiencies related to consolidation of their offices as well as variances resulting from the Bank's technology conversions late in 2004.

The provision for income taxes decreased $205,000 or 29.4% to $492,000 for 2006, compared to $697,000 for 2005, primarily due to the decrease in the Corporation's pre-tax earnings of $812,000.

Market Risk Management

The primary objective of the Corporation's asset liability management function is to maximize the Corporation's net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Corporation's operating environment, capital and liquidity requirements, balance sheet mix, performance objectives and overall business focus. One of the primary measures of the exposure of the Corporation's earnings to interest rate risk is the timing difference between the repricing or maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities.

The Corporation's Board of Directors has established a Finance Committee, consisting of four outside directors, the President and Chief Executive Officer and the Chief Financial Officer, to monitor market risk, including primarily interest rate risk. This committee, which meets at least quarterly, generally establishes and monitors the investment, interest rate risk and asset liability management policies established by the Corporation.

In order to minimize the potential for adverse affects of material and prolonged changes in interest rates on the Corporation's results of operations, the Corporation's management has implemented and continues to monitor asset liability management policies to better match the maturities and repricing terms of the Corporation's interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of (i) originating adjustable-rate mortgage loans; (ii) originating short-term secured commercial loans with the rate on the loan tied to the prime rate or reset features in which the rate changes at determined intervals; (iii) emphasizing investment in shorter-term (15 years or less) investment securities; (iv) selling longer-term (30-year) fixed-rate residential mortgage loans in the secondary market; (v) maintaining a high level of liquid assets (including securities classified as available for sale) that can be readily reinvested in higher yielding investments should interest rates rise; (vi) emphasizing the retention of lower-costing savings accounts and other core deposits; and (vii) lengthening liabilities and locking in lower borrowing rates with longer terms whenever possible.

Interest Rate Sensitivity Gap Analysis

The implementation of asset and liability initiatives and strategies and compliance with related policies, combined with other external factors such as demand for the Corporation's products and economic and interest rate environments in general, has resulted in the Corporation maintaining a one-year cumulative interest rate sensitivity gap ranging between a positive and negative 20% of total assets. The one-year interest rate sensitivity gap is identified as the difference between the Corporation's interest-earning assets that are scheduled to mature or reprice within one year and its interest-bearing liabilities that are scheduled to mature or reprice within one year.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities, and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero, or more neutral, that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at December 31, 2007, the Corporation's interest-earning assets maturing or repricing within one year totaled $72.7 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $93.2 million, providing an excess of interest-bearing liabilities over interest-earning assets of $20.5 million or a negative 6.6% of total assets. At December 31, 2007, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 78.1%.

The following table presents the amounts of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2007 which are expected to mature, prepay or reprice in each of the future time periods presented:

(Dollar amounts in thousands)	Due in six months or less	Due within six months to one year	Due within one to three years	Due within three to five years	Due in over five years	Total
Total interest-earning assets	$ 47,171	$ 25,554	$ 74,212	$ 43,505	$ 89,942	$ 280,384
Total interest-bearing liabilities	58,930	34,224	57,827	37,169	96,516	284,666
Maturity or repricing gap during the period	$ (11,759)	$ (8,670)	$ 16,385	$ 6,336	$ (6,574)	$ (4,282)
Cumulative gap	$ (11,759)	$ (20,429)	$ (4,044)	$ 2,292	$ (4,282)	
Ratio of gap during the period to total assets	(3.77%)	(2.78%)	5.26%	2.03%	(2.11%)	
Ratio of cumulative gap to total assets	(3.77%)	(6.55%)	(1.30%)	0.74%	(1.37%)	
Total assets						$ 311,720

Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

The one-year interest rate sensitivity gap has been the most common industry standard used to measure an institution's interest rate risk position regarding maturities, repricing and prepayments. In recent years, in addition to utilizing interest rate sensitivity gap analysis, the Corporation has increased its emphasis on the utilization of interest rate sensitivity simulation analysis to evaluate and manage interest rate risk.

Interest Rate Sensitivity Simulation Analysis

The Corporation also utilizes income simulation modeling in measuring its interest rate risk and managing its interest rate sensitivity. The Finance Committee of the Corporation believes that simulation modeling enables the Corporation to more accurately evaluate and manage the possible effects on net interest income due to the exposure to changing market interest rates, the slope of the yield curve and different loan and security prepayment and deposit decay assumptions under various interest rate scenarios.

As with gap analysis and earnings simulation modeling, assumptions about the timing and variability of cash flows are critical in net portfolio equity valuation analysis. Particularly important are the assumptions driving mortgage prepayments and the assumptions about expected attrition of the core deposit portfolios. These assumptions are based on the Corporation's historical experience and industry standards and are applied consistently across the different rate risk measures.

The Corporation has established the following guidelines for assessing interest rate risk:

> **Net interest income simulation.** Given a 200 basis point parallel and gradual increase or decrease in market interest rates, net interest income may not change by more than 25% for a one-year period.
>
> **Portfolio equity simulation.** Portfolio equity is the net present value of the Corporation's existing assets and liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 30% of stockholders' equity.

These guidelines take into consideration the current interest rate environment, the Corporation's financial asset and financial liability product mix and characteristics and liquidity sources among other factors. Given the current rate environment, a drop in short-term market interest rates of 200 basis points immediately or over a one-year horizon would seem unlikely. This should be considered in evaluating modeling results outlined in the table below.

The following table presents the simulated impact of a 100 basis point or 200 basis point upward or downward shift of market interest rates on net interest income, for the years ended December 31, 2007 and 2006, respectively. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at December 31, 2007 remained constant. The impact of the market rate movements on net interest income was developed by simulating the effects of rates changing gradually during a one-year period from the December 31, 2007 levels for net interest income.

	Increase		Decrease	
	+100 BP	+200 BP	-100 BP	-200 BP
2007 Net interest income - increase (decrease)	0.26%	(0.66%)	2.24%	5.15%
2006 Net interest income - increase (decrease)	1.12%	0.73%	(0.33%)	(3.43%)

Impact of Inflation and Changing Prices

The consolidated financial statements of the Corporation and related notes presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial condition and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services since such prices are affected by inflation to a larger degree than interest rates. In the current interest rate environment, liquidity and the maturity structure of the Corporation's assets and liabilities are critical to the maintenance of acceptable performance levels.

Capital Resources

Total stockholders' equity increased $786,000 or 3.3% to $24.7 million at December 31, 2007 from $23.9 million at December 31, 2006. Net income of $2.7 million in 2007, represented an increase in earnings of $731,000 or 37.2% compared to last year. Returns on average equity and assets were 11.13% and 0.90%, respectively, for 2007.

The Corporation has maintained a strong capital position with a capital to assets ratio of 7.9% at December 31, 2007, a slight decline compared to the ratio of 8.0% a year earlier. While continuing to sustain this strong capital position, dividends increased to $2.0 million in 2007 from $1.4 million in 2006. Stockholders have taken part in the Corporation's dividend reinvestment plan introduced during 2003 with 40% of registered shareholder accounts active in the plan at December 31, 2007.

Capital adequacy is intended to enhance the Corporation's ability to support growth while protecting the interest of shareholders and depositors and to ensure that capital ratios are in compliance with regulatory minimum requirements. Regulatory agencies have developed certain capital ratio requirements that are used to assist them in monitoring the safety and soundness of financial institutions. At December 31, 2007, the Corporation and the Bank were in excess of all regulatory capital requirements.

Liquidity

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB, and amortization and prepayments of outstanding loans and maturing securities. During 2007, the Corporation used its sources of funds primarily to fund loan commitments. As of December 31, 2007, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $30.7 million, and standby letters of credit totaling $869,000. The Bank is required by the OCC to establish policies to monitor and manage liquidity levels to ensure the Bank's ability to meet demands for customer withdrawals and the repayment of short-term borrowings, and the Bank is currently in compliance with all liquidity policy limits.

At December 31, 2007, time deposits amounted to $119.5 million or 48.9% of the Corporation's total consolidated deposits, including approximately $56.2 million, which are scheduled to mature within the next year. Management of the Corporation believes that the Corporation has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities. The following table presents the Corporation's contractual obligations as of December 31, 2007:

(Dollar amounts in thousands)	Less than 1 year	1 - 3 years	3 - 5 years	Over 5 years	Total
Time deposits	$ 56,263	$ 34,234	$ 18,603	$ 10,437	$ 119,537
Borrowed funds	5,400	-	10,000	25,000	40,400
Lease obligations	120	234	105	-	459
Estimated future pension payments	254	461	422	3,371	4,508
Total	$ 62,037	$ 34,929	$ 29,130	$ 38,808	$ 164,904

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a line of credit and term borrowing capacity from the FHLB and, to a more limited extent, through the sale of loans. At December 31, 2007, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $110.6 million.

Management is not aware of any conditions, including any regulatory recommendations or requirements, that would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

Critical Accounting Policies

The Corporation's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily though the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Corporation are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management has identified the following as a critical accounting policy.

Allowance for loan losses. The Corporation considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The balance in the allowance for loan losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions and other pertinent factors, including management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. Among the many factors affecting the allowance for loan losses, some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for loan losses may be required that would adversely impact the Corporation's financial condition or earnings in future periods.

Recent Accounting and Regulatory Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the potential impact, if any, of the adoption of SFAS 157 on its consolidated financial statements.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, *Effective Date of FASB Statement No. 157* (FSP 157-b), that would permit a one-year deferral in applying the measurement provisions of SFAS 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of SFAS 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies SFAS 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Corporation is currently evaluating the potential impact, if any, of the adoption of FSP 157-b on its consolidated financial statements.

In September 2006, FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements* (EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The EITF is effective in fiscal years beginning after December 15, 2007, with early adoption permitted. The Corporation does not expect the implementation of EITF 06-4 to have a material impact on its consolidated financial statements.

In September 2006, FASB's EITF issued EITF Issue No. 06-5, *Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance* (EITF 06-5). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of key persons. The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The implementation of EITF 06-5 had no effect on the Corporation's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial* Liabilities – *Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for the Corporation January 1, 2008. The Corporation is evaluating the impact that the adoption of SFAS 159 will have on its consolidated financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. (SAB) 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109). SAB 109 expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, SAB 109 revises and rescinds portions of SAB No. 105, *Application of Accounting Principles to Loan Commitments*. Specifically, SAB 109 revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109 retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Corporation does not expect SAB 109 to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for fiscal years beginning after December 15, 2008. This new pronouncement will impact the Corporation's accounting for business combinations completed beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements – An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective for fiscal years beginning after December 15, 2008. The Corporation believes that this new pronouncement will have an immaterial impact on its consolidated financial statements.

In December 2007, the SEC issued SAB No. 110 (SAB 110) to amend and replace Question 6 of Section D.2 of Topic 14, *Share-Based Payment*, of the SAB series. Question 6 of Section D.2 Topic 14 expresses the views of the staff regarding the use of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008.

Forward Looking Statements

Discussions of certain matters in this Annual Report and other related year end documents may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the business environment in which the Corporation operates, projections of future performance and potential future credit experience. The Corporation's actual results, performance and achievements may differ materially from the results, performance and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the local economy, accounting principles or guidelines, legislative and regulatory changes, government monetary and fiscal policies, real estate markets, financial services industry competition, attracting and retaining key personnel, regulatory actions and other risks detailed in the Corporation's reports filed with the SEC from time to time. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Consolidated Balance Sheets
(Dollar amounts in thousands, except share data)

	December 31, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 10,288	$ 7,540
Interest earning deposits with banks	195	9,177
Total cash and cash equivalents	10,483	16,717
Securities available for sale, at fair value	51,919	51,774
Loans receivable, net of allowance for loan losses of $2,157 and $2,035	229,819	213,344
Federal bank stocks, at cost	2,662	2,217
Bank-owned life insurance	4,987	4,794
Accrued interest receivable	1,365	1,374
Premises and equipment, net	7,904	7,958
Goodwill	1,422	1,422
Prepaid expenses and other assets	1,159	960
Total Assets	**$ 311,720**	**$ 300,560**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 47,111	$ 44,045
Interest bearing	197,151	200,447
Total deposits	244,262	244,492
Borrowed funds:		
Short-term	5,400	-
Long-term	35,000	30,000
Total borrowed funds	40,400	30,000
Accrued interest payable	771	825
Accrued expenses and other liabilities	1,584	1,326
Total Liabilities	287,017	276,643
Stockholders' Equity		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; none issued	-	-
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued, 1,267,835 shares outstanding	1,745	1,745
Additional paid-in capital	10,902	10,871
Treasury stock, at cost; 128,017 shares	(2,653)	(2,653)
Retained earnings	15,114	14,370
Accumulated other comprehensive loss	(405)	(416)
Total Stockholders' Equity	24,703	23,917
Total Liabilities and Stockholders' Equity	**$ 311,720**	**$ 300,560**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
(Dollar amounts in thousands, except share data)

	Year ended December 31,		
	2007	**2006**	**2005**
Interest and dividend income			
Loans receivable, including fees	$ 15,287	$ 13,856	$ 12,325
Securities:			
Taxable	1,571	1,481	1,714
Exempt from federal income tax	687	699	699
Federal bank stocks	144	94	58
Deposits with banks	166	129	81
Total interest and dividend income	17,855	16,259	14,877
Interest expense			
Deposits	6,440	5,967	4,894
Short-term borrowed funds	33	53	50
Long-term borrowed funds	1,413	948	629
Total interest expense	7,886	6,968	5,573
Net interest income	9,969	9,291	9,304
Provision for loan losses	256	358	205
Net interest income after provision for loan losses	9,713	8,933	9,099
Noninterest income			
Fees and service charges	1,549	1,484	1,420
Commissions on financial services	448	408	437
Net gain on sales of loans	33	58	5
Net gain on available for sale securities	207	400	857
Earnings on bank-owned life insurance	219	195	191
Other	487	389	407
Total noninterest income	2,943	2,934	3,317
Noninterest expense			
Compensation and employee benefits	5,090	5,632	5,107
Premises and equipment	1,589	1,637	1,611
Intangible amortization expense	-	7	31
Other	2,485	2,133	2,397
Total noninterest expense	9,164	9,409	9,146
Income before provision for income taxes	3,492	2,458	3,270
Provision for income taxes	795	492	697
Net income	**$ 2,697**	**$ 1,966**	**$ 2,573**
Earnings per share			
Basic	**$ 2.13**	**$ 1.55**	**$ 2.03**
Diluted	**$ 2.13**	**$ 1.55**	**$ 2.03**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2005	**$ 1,745**	**$ 10,871**	**$ (2,653)**	**$ 12,398**	**$ 1,255**	**$ 23,616**
Comprehensive income:						
Net income				2,573		2,573
Change in net unrealized gains (losses) on securities available for sale, net of taxes of ($660)					(1,281)	(1,281)
Comprehensive income						1,292
Dividends declared, $1.02 per share				(1,293)		(1,293)
Balance at December 31, 2005	**1,745**	**10,871**	**(2,653)**	**13,678**	**(26)**	**23,615**
Cumulative effect of adjustments resulting from the adoption of SAB No. 108				120		120
Adjusted balance at December 31, 2005	**1,745**	**10,871**	**(2,653)**	**13,798**	**(26)**	**23,735**
Comprehensive income:						
Net income				1,966		1,966
Change in net unrealized losses on securities available for sale, net of taxes of ($14)					(30)	(30)
Comprehensive income						1,936
Adjustment to initially apply SFAS No. 158, net of taxes of ($185)					(360)	(360)
Dividends declared, $1.10 per share				(1,394)		(1,394)
Balance at December 31, 2006	**1,745**	**10,871**	**(2,653)**	**14,370**	**(416)**	**23,917**
Comprehensive income:						
Net income				2,697		2,697
Change in net unrealized losses on securities available for sale, net of taxes of ($22)					(43)	(43)
Change in funded status of defined benefit plan, net of taxes of $27					54	54
Comprehensive income						2,708
Stock compensation expense, net of taxes of $16		31				31
Dividends declared, $1.54 per share				(1,953)		(1,953)
Balance at December 31, 2007	**$ 1,745**	**$ 10,902**	**$ (2,653)**	**$ 15,114**	**$ (405)**	**$ 24,703**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	Year ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities			
Net income	$ 2,697	$ 1,966	$ 2,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	663	849	855
Provision for loan losses	256	358	205
Amortization of premiums and accretion of discounts, net	7	32	94
Amortization of intangible assets and mortgage servicing rights	17	14	37
Realized gain on sales of available for sale securities, net	(207)	(400)	(857)
Net gains on sales of loans	(33)	(58)	(5)
Originations of loans sold	(1,737)	(4,008)	-
Proceeds from the sale of loans	1,756	3,998	-
Stock compensation expense	31	-	-
Proceeds from the sale of loans held for sale	-	-	546
Earnings on bank-owned life insurance, net	(193)	(171)	(175)
(Increase) decrease in accrued interest receivable	9	(103)	(68)
(Increase) decrease in deferred taxes	156	47	(506)
(Increase) decrease in prepaid expenses and other assets	(372)	(131)	1,078
Increase (decrease) in accrued interest payable	(54)	218	30
Increase (decrease) in accrued expenses and other liabilities	334	35	(176)
Net cash provided by operating activities	3,330	2,646	3,631
Cash flows from investing activities			
Loan originations and principal collections, net	(16,727)	(21,139)	(13,286)
Available for sale securities:			
Sales	1,472	1,089	1,646
Maturities, repayments and calls	17,006	5,848	8,809
Purchases	(18,478)	(2,076)	(4,552)
Held to maturity securities:			
Sales	-	14	-
Maturities, repayments and calls	-	1	1
Purchase of federal bank stocks	(445)	(444)	(42)
Purchases of premises and equipment	(609)	(2,684)	(1,300)
Net cash used in investing activities	(17,781)	(19,391)	(8,724)
Cash flows from financing activities			
Net increase (decrease) in deposits	(230)	13,989	(2,371)
Proceeds from issuance of long-term debt	5,000	15,000	-
Net change in short-term borrowings	5,400	(4,500)	4,500
Dividends paid on common stock	(1,953)	(1,394)	(1,293)
Net cash provided by financing activities	8,217	23,095	836
Net increase (decrease) in cash and cash equivalents	(6,234)	6,350	(4,257)
Cash and cash equivalents at beginning of period	16,717	10,367	14,624
Cash and cash equivalents at end of period	$ 10,483	$ 16,717	$ 10,367
Supplemental information:			
Interest paid	$ 7,940	$ 6,750	$ 5,543
Income taxes paid	626	686	442
Supplemental noncash disclosures:			
Transfers from loans to foreclosed real estate	253	50	106

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation. The consolidated financial statements include the accounts of Emclaire Financial Corp. (the Corporation) and its wholly owned subsidiary, the Farmers National Bank of Emlenton (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations. The Corporation provides a variety of financial services to individuals and businesses through its offices in Western Pennsylvania. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

Use of Estimates and Classifications. In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments and the valuation of deferred tax assets. Certain amounts previously reported may have been reclassified to conform to the current year financial statement presentation. Such reclassifications did not affect net income or stockholders' equity.

Significant Group Concentrations of Credit Risk. Most of the Corporation's activities are with customers located within the Western Pennsylvania region of the country. Note 2 discusses the type of securities that the Corporation invests in. Note 3 discusses the types of lending the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer.

Cash Equivalents. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items, interest-earning deposits with other financial institutions and federal funds sold and due from correspondent banks. Interest-earning deposits mature within one year and are carried at cost. Federal funds are generally sold or purchased for one day periods. Net cash flows are reported for loan and deposit transactions.

Restrictions on Cash. Cash on hand or on deposit with the Federal Reserve Bank of approximately $60,000 and $1.1 million were required to meet regulatory reserve and clearing requirements at December 31, 2007 and 2006, respectively. Such balances do not earn interest.

Securities. Securities include investments primarily in bonds and notes and are classified as either available for sale or held to maturity at the time of purchase based on management's intent. Securities for which the Corporation has the positive intent and ability to hold to maturity are classified as held to maturity and are reported at amortized cost. Securities that are not classified as held to maturity, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income.

1. Summary of Significant Accounting Policies (continued)

Securities (continued). Purchase premiums and discounts on securities are recognized in interest income using the interest method over the term of the securities. Declines in the fair value of securities below their cost that are deemed other than temporary result in the security being written down to fair value on an individual basis. Any related write-downs are included in operations. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method and are included in operations in the period sold.

Loans Held for Sale. Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans held for sale are generally sold with servicing rights retained. The carrying value of such loans sold is reduced by the cost allocated to the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans Receivable. The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Western Pennsylvania. The ability of the Corporation's debtors to honor their contracts is dependent upon real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or net pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans or premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, and premiums and discounts are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is typically discontinued at the time the loan is 90 days past due unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established for probable credit losses through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are typically credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historic experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

1. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses (continued). The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loans effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of small balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Bank-Owned Life Insurance (BOLI). The Bank purchased life insurance policies on certain key officers and employees. BOLI is recorded at its cash surrender value, or the amount that can be realized.

Premises and Equipment. Land is carried at cost. Premises, furniture and equipment, and leasehold improvements are carried at cost less accumulated depreciation or amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, which are twenty-five to fifty years for buildings and three to ten years for furniture and equipment. Amortization of leasehold improvements is computed using the straight-line method over the shorter of their estimated useful life or the expected term of the leases. Expected terms include lease option periods to the extent that the exercise of such option is reasonably assured. Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, assets are recorded at fair value.

Goodwill and Intangible Assets. Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired assets and liabilities. Core deposit intangible assets arise from whole bank or branch acquisitions and are measured at fair value and then are amortized on a straight-line basis over their estimated lives, generally less than 10 years. Customer relationship intangible assets arise from the purchase of a customer list from another company or individual and then are amortized on a straight-line basis over two years. Goodwill is not amortized and is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

1. Summary of Significant Accounting Policies (continued)

Servicing Assets. Servicing assets represent the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

Real Estate Acquired Through Foreclosure. Real estate properties acquired through foreclosure are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations of the properties, gains and losses on sales and additions to the valuation allowance are included in operating results. Real estate acquired through foreclosure is classified in prepaid expenses and other assets and totaled $129,000 and $98,000 at December 31, 2007 and 2006, respectively.

Treasury Stock. Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.

Income Taxes. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rate and laws.

Earnings Per Common Share. Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Corporation. Options on 84,000 shares of common stock were included in computing diluted earnings per share because their effects were dilutive.

Comprehensive Income. Comprehensive income includes net income from operating results and the net change in accumulated other comprehensive income. Accumulated other comprehensive income is comprised of unrealized holding gains and losses on securities available for sale and the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. The effects of other comprehensive income are presented as part of the statement of changes in stockholders' equity.

Operating Segments. Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial services operations are considered by management to be aggregated in one reportable operating segment.

Retirement Plans. The Corporation maintains a noncontributory defined benefit plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily on years of service and compensation rates near retirement. The Corporation also maintains a 401(k) plan, which covers substantially all employees and a supplemental executive retirement plan for key executive officers.

1. Summary of Significant Accounting Policies (continued)

Stock Compensation Plans. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payments* (SFAS 123(R)). SFAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123(R) is a replacement of SFAS 123, *Accounting for Stock-Based Compensation,* and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related interpretive guidance. The effect of the statement requires entities to measure the cost of employee services received in exchange for the stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. SFAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the statement. Effective January 1, 2007, the Corporation adopted SFAS 123(R).

Transfers of Financial Assets. Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising. Advertising costs are expensed as incurred.

Off-Balance Sheet Financial Instruments. In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments, consisting of commitments to extend credit, commitments under line of credit lending arrangements and letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are received.

Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Recently Adopted Accounting Standards. The Corporation, in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), adjusted its beginning retained earnings for fiscal 2006 in the accompanying consolidated balance sheet. The provisions of SAB 108 were effective for the Corporation for its December 31, 2006 year end. See Note 12 for additional information on the adoption of SAB 108.

The Corporation adopted Financial Accounting Standard Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes,* (FIN 48), effective January 1, 2007. The adoption had no impact on the Corporation's consolidated financial statements. At January 1, 2007 and December 31, 2007, the Corporation had no FIN 48 unrecognized tax benefits recorded.

1. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Standards (continued). The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R),* (SFAS 158), effective December 31, 2006. The adoption of SFAS 158 resulted in the Corporation recording an additional accrued pension liability of $545,000 and a charge of $360,000, net of taxes, to accumulated other comprehensive income at December 31, 2006. As of December 31, 2007, the Corporation's liability under SFAS was $465,000 and the charge to accumulated other comprehensive income was $306,000, net of taxes. See Note 13 for additional information on the adoptions of SFAS 158.

The Corporation adopted SFAS 123(R), *Share-Based Payment,* which requires that compensation cost related to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the year ended December 31, 2007, the Corporation recognized $31,000, net of taxes, in compensation expense for stock options.

Recent Accounting and Regulatory Pronouncements. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the potential impact, if any, of the adoption of SFAS 157 on its consolidated financial statements.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, *Effective Date of FASB Statement No. 157* (FSP 157-b), that would permit a one-year deferral in applying the measurement provisions of SFAS 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of SFAS 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies SFAS 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Corporation is currently evaluating the potential impact, if any, of the adoption of FSP 157-b on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting and Regulatory Pronouncements (continued). In September 2006, FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements* (EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The EITF is effective in fiscal years beginning after December 15, 2007, with early adoption permitted. The Corporation does not expect the implementation of EITF 06-4 to have a material impact on its consolidated financial statements.

In September 2006, FASB's EITF issued EITF Issue No. 06-5, *Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance* (EITF 06-5). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of key persons. The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The implementation of EITF 06-5 had no effect on the Corporation's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial* Liabilities – *Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for the Corporation January 1, 2008. The Corporation is evaluating the impact that the adoption of SFAS 159 will have on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting and Regulatory Pronouncements (continued). In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. (SAB) 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109). SAB 109 expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, SAB 109 revises and rescinds portions of SAB No. 105, *Application of Accounting Principles to Loan Commitments*. Specifically, SAB 109 revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109 retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Corporation does not expect SAB 109 to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for fiscal years beginning after December 15, 2008. This new pronouncement will impact the Corporation's accounting for business combinations completed beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements – An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective for fiscal years beginning after December 15, 2008. The Corporation believes that this new pronouncement will have an immaterial impact on its consolidated financial statements.

In December 2007, the SEC issued SAB No. 110 (SAB 110) to amend and replace Question 6 of Section D.2 of Topic 14, *Share-Based Payment*, of the SAB series. Question 6 of Section D.2 Topic 14 expresses the views of the staff regarding the use of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008.

2. Securities

The following table summarizes the Corporation's securities as of December 31:

(Dollar amounts in thousands)	Amortized Cost	Unrealized gains	Unrealized losses	Fair value
Available for sale:				
December 31, 2007:				
U.S. Government agencies and related entities	$ 29,356	$ 37	$ (59)	$ 29,334
Mortgage-backed securities	1,932	-	(48)	1,884
Municipal securities	13,685	566	-	14,251
Corporate securities	2,939	-	-	2,939
Equity securities	4,156	-	(645)	3,511
	$ 52,068	$ 603	$ (752)	$ 51,919
December 31, 2006:				
U.S. Government agencies and related entities	$ 31,354	$ -	$ (606)	$ 30,748
Mortgage-backed securities	2,434	-	(95)	2,339
Municipal securities	14,688	574	-	15,262
Corporate securities	-	-	-	-
Equity securities	3,382	176	(132)	3,425
	$ 51,858	$ 750	$ (833)	$ 51,774

Sales of available for sale securities were as follows:

(Dollar amounts in thousands)	2007	2006	2005
Proceeds	$ 1,472	$ 1,089	$ 1,646
Gross gains	207	400	857
Tax provision related to gains	70	136	291

The following table summarizes scheduled maturities of the Corporation's securities as of December 31, 2007:

(Dollar amounts in thousands)	Available for sale	
	Amortized cost	Fair value
Due in one year or less	$ 13,268	$ 13,254
Due after one year through five years	16,053	16,019
Due after five through ten years	3,330	3,344
Due after ten years	15,261	15,791
No scheduled maturity	4,156	3,511
	$ 52,068	$ 51,919

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

2. Securities (continued)

Securities with carrying values of $11.5 million and $12.4 million as of December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2007 and 2006 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2007:						
U.S. Government agencies and related entities	$ -	$ -	$ 20,804	$ (59)	$ 20,804	$ (59)
Mortgage-backed securities	-	-	1,884	(48)	1,884	(48)
Municipal securities	-	-	-	-	-	-
Corporate securities	-	-	-	-	-	-
Equity securities	888	(184)	2,557	(461)	3,445	(645)
	$ 888	$ (184)	$ 25,245	$ (568)	$ 26,133	$ (752)
December 31, 2006:						
U.S. Government agencies and related entities	$ 1,224	$ (23)	$ 29,524	$ (583)	$ 30,748	$ (606)
Mortgage-backed securities	-	-	2,339	(95)	2,339	(95)
Municipal securities	-	-	-	-	-	-
Corporate securities	-	-	-	-	-	-
Equity securities	1,262	(57)	960	(75)	2,222	(132)
	$ 2,486	$ (80)	$ 32,823	$ (753)	$ 35,309	$ (833)

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. 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.

As of December 31, 2007, there were 34 securities in an unrealized loss position. These unrealized losses are considered to be temporary impairments. A decline in the value of the debt securities is due only to interest rate fluctuations, rather then erosion of quality. As a result, the payment of contractual cash flows, including principal repayment, is not at risk. As management has the intent and ability to hold these investments until market recovery or maturity, none of the debt securities are deemed to be other than temporary.

Equity securities owned by the Corporation consist of common stock of various financial services providers that have traditionally been high-performing stocks. As a result of recent market volatility in financial stocks from news of sub-prime lending problems, the fair value of most of the stocks held are “under water” as of December 31, 2007, and as such, could be considered to be impaired. The Corporation does not invest in these securities with the intent to sell them for a profit in the near-term. Management believes these securities have potential to appreciate in value over the long-term, while providing for a reasonable dividend yield. In addition, stocks can be cyclical and will experience some down periods. Historically, bank stocks have sustained cyclical losses followed by periods of substantial gains. Based on these circumstances and the ability and intent to hold these securities for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider these investments to be other than temporarily impaired at December 31, 2007.

3. Loans Receivable

The following table summarizes the Corporation's loans receivable as of December 31:

(Dollar amounts in thousands)	2007	2006
Mortgage loans on real estate:		
Residential first mortgages	$ 65,706	$ 64,662
Home equity loans and lines of credit	49,426	47,330
Commercial real estate	71,599	61,128
	186,731	173,120
Other loans:		
Commercial business	35,566	34,588
Consumer	9,679	7,671
	45,245	42,259
Total loans, gross	231,976	215,379
Less allowance for loan losses	2,157	2,035
Total loans, net	$ 229,819	$ 213,344

Following is an analysis of the changes in the allowance for loan losses for the years ended December 31:

(Dollar amounts in thousands)	2007	2006	2005
Balance at the beginning of the year	$ 2,035	$ 1,869	$ 1,810
Provision for loan losses	256	358	205
Charge-offs	(164)	(221)	(197)
Recoveries	30	29	51
Balance at the end of the year	$ 2,157	$ 2,035	$ 1,869

Non-performing loans, which include primarily non-accrual loans, were $1.0 million and $1.8 million at December 31, 2007 and 2006, respectively. The Corporation is not committed to lend significant additional funds to debtors whose loans are on non-accrual status. At December 31, 2007 there was no recorded investment in loans considered to be impaired. At December 31, 2006, the recorded investment in loans considered to be impaired, requiring an allowance for loan loss, was $461,000, against which approximately $166,000 of the allowance for loan losses was allocated. Additionally, in 2006, there was one impaired loan for $452,000 that did not require an allowance for loan loss. During 2007, 2006 and 2005, impaired loans averaged $255,000, $946,000 and $1.2 million, respectively. The Corporation recognized interest income on impaired loans of approximately $98,000, $14,000 and $95,000, on a cash basis, during 2007, 2006 and 2005, respectively. Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories whereas other loans may be included in only one category.

The Corporation is required to maintain qualifying collateral with the FHLB to secure all outstanding loans. Loans with book values of $50.0 million and $52.7 million as of December 31, 2007 and 2006, respectively, are pledged as qualifying collateral. The Corporation is in compliance with all FHLB credit policies at December 31, 2007.

3. Loans Receivable (continued)

The Corporation was servicing residential mortgage loans with unpaid principal balances of $7.7 million and $6.3 million at December 31, 2007 and 2006, respectively, for a third party investor. In addition, the Corporation was servicing commercial loans with unpaid principal balances of $5.3 million and $6.0 million at December 2007 and 2006, respectively, for third party investors. Such loans are not reflected in the consolidated balance sheet and servicing operations result in the generation of annual fee income of approximately 0.25% of the unpaid principal balances of such loans.

4. Federal Bank Stocks

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and the Federal Reserve Bank of Cleveland (FRB). As a member of these federal banking systems, the Bank maintains an investment in the capital stock of the respective regional banks, at cost. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships. The Bank's investment in FHLB and FRB stocks was $2.3 million and $333,000, respectively, at December 31, 2007, and $1.9 million and $333,000, respectively, at December 31, 2006.

5. Premises and Equipment

Premises and equipment at December 31 are summarized by major classification as follows:

(Dollar amounts in thousands)	2007	2006
Land	$ 1,088	$ 1,088
Buildings and improvements	5,955	5,894
Leasehold improvements	733	696
Furniture, fixtures and equipment	4,428	4,279
Software	1,878	1,735
Construction in progress	908	688
	14,990	14,381
Less accumulated depreciation and amortization	7,086	6,423
	$ 7,904	$ 7,958

Depreciation and amortization expense for the years ended December 31, 2007, 2006 and 2005 were $663,000, $849,000 and $855,000, respectively.

5. Premises and Equipment (continued)

Rent expense under non-cancelable operating lease agreements for the years ended December 31, 2007, 2006 and 2005 was $115,000, $112,000 and $109,000, respectively. Rent commitments under non-cancelable long-term operating lease agreements for certain branch offices for the years ended December 31, are as follows, before considering renewal options that are generally present:

(Dollar amounts in thousands)	Amount
2008	$ 120
2009	122
2010	112
2011	76
2012	29
Thereafter	-
	$ 459

6. Goodwill and Intangible Assets

The following table summarizes the Corporation's acquired goodwill and intangible assets as of December 31:

Goodwill and Intangible Assets:

(Dollar amounts in thousands)	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	$ 1,422	$ -	$ 1,422	$ -
Core deposit intangibles	1,240	1,240	1,240	1,240
Other customer relationship intangibles	20	20	20	20
Total	$ 2,682	$ 1,260	$ 2,682	$ 1,260

Goodwill resulted from two previous branch acquisitions and is no longer amortized. There was no aggregate amortization expense for 2007. Aggregate amortization expense for 2006 and 2005 was $7,000 and $31,000, respectively.

7. Related Party Balances and Transactions

In the ordinary course of business, the Bank maintains loan and deposit relationships with employees, principal officers and directors. The Bank has granted loans to principal officers and directors and their affiliates amounting to $1.3 million and $1.2 million at December 31, 2007 and 2006, respectively. During 2007, total principal additions and total principal repayments associated with these loans were $350,000 and $282,000, respectively. Deposits from principal officers and directors held by the Bank at December 31, 2007 and 2006 totaled $2.4 million and $2.4 million, respectively.

In addition, directors and their affiliates may provide certain professional and other services to the Corporation and the Bank in the ordinary course of business at market fee rates. During 2007, 2006 and 2005, amounts paid to affiliates for such services totaled $120,000, $117,000 and $55,000, respectively.

8. Deposits

The following table summarizes the Corporation's deposits as of December 31:

(Dollar amounts in thousands)	2007			2006		
Type of accounts	Weighted average rate	Amount	%	Weighted average rate	Amount	%
Non-interest bearing deposits	-	$ 47,111	19.3%	-	$ 44,045	18.0%
Interest bearing demand deposits	1.28%	77,614	31.8%	0.69%	70,951	29.0%
Time deposits	4.48%	119,537	48.9%	4.59%	129,496	53.0%
	2.60%	$ 244,262	100.0%	2.63%	$ 244,492	100.0%

The Corporation had a total of $32.7 million and $33.0 million in time deposits of $100,000 or more at December 31, 2007 and 2006, respectively.

Scheduled maturities of time deposits for the next five years are as follows:

(Dollar amounts in thousands)	Amount	%
2008	$ 56,263	47.1%
2009	19,777	16.5%
2010	14,457	12.1%
2011	9,425	7.9%
2012	9,178	7.7%
Thereafter	10,437	8.7%
	$ 119,537	100.0%

9. Borrowed Funds

The following table summarizes the Corporation's borrowed funds as of and for the year ended December 31:

(Dollar amounts in thousands)	2007				2006			
	Balance	Average Balance	Average Rate	Weighted average rate	Balance	Average Balance	Average Rate	Weighted average rate
FHLB advances:								
Due within 12 months	$ 5,400	$ 1,208	4.58%	2.73%	$ -	$ 1,147	4.90%	4.62%
Due beyond 12 months but within 5 years	10,000	10,000	4.18%	4.24%	5,000	5,000	4.61%	4.68%
Due beyond 5 years but within 10 years	25,000	21,233	4.52%	4.66%	25,000	16,521	4.45%	4.32%
	$ 40,400	$ 32,441			$ 30,000	$ 22,668		

9. Borrowed Funds (continued)

The Corporation had outstanding advances with the FHLB of $40.4 million and $30.0 million at December 31, 2007 and 2006, respectively. Borrowed funds at December 31, 2007 consist of seven, $5.0 million term advances and $5.4 million in overnight borrowings with the FHLB. The term advances mature between November 2011 and October 2017. If these advances convert to adjustable rate borrowings, the Corporation has the opportunity to repay the advances without penalty at or after the conversion date. All borrowings from the FHLB are secured by a blanket lien of qualified collateral, defined principally as 80 percent of the carrying value of first mortgage loans on owner-occupied residential properties and 95 percent of the market value of U.S. Government and federal agency securities.

The initial three $5.0 million borrowings have fixed rates of 4.61%, 3.74% and 4.04%, respectively, after which the rates may adjust at the option of the FHLB to the then three month LIBOR plus 20, 22 or 25 basis points, respectively, but only if the three month LIBOR exceeds 8.0%.

During 2006, the Corporation entered into agreements with the FHLB to borrow three additional $5.0 million 10 year term advances at initial interest rates of 4.98%, 4.83% and 4.68%, respectively. Two of these borrowings in 2006 are fixed for the first two years of the term after which the rates may adjust at the option of the FHLB to the then three month LIBOR rate plus 24 basis points. The third borrowing in 2006 is also fixed for the first two years of the initial term after which the rates may adjust at the option of the FHLB to the then three month LIBOR plus 24 basis points, but only if the three month LIBOR exceeds 6.0%.

During 2007, the Corporation entered into an agreement with the FHLB to borrow an additional $5.0 million for a 10 year term at an initial interest rate of 4.09%. This borrowing is fixed for the first three years of the term after which the rates may adjust at the option of the FHLB to the then three month LIBOR rate plus 13 basis points.

Scheduled maturities of borrowed funds for the next five years are as follows:

(Dollar amounts in thousands)		Amount
2008	$	5,400
2009		-
2010		-
2011		5,000
2012		5,000
Thereafter		25,000
	$	40,400

The Bank maintains a credit arrangement with the FHLB as a source of additional liquidity. The total maximum borrowing capacity with the FHLB, excluding loans outstanding, at December 31, 2007 was $96.7 million.

10. Insurance of Accounts and Regulatory Matters

Insurance of Accounts

The Federal Deposit Insurance Corporation (FDIC) insures deposits of account holders up to $100,000 per insured depositor. In addition, federal law provides up to $250,000 in insurance coverage for deposits held in Individual Retirement Accounts (IRAs). To provide this insurance, the Bank must pay an annual premium. In connection with the insurance of deposits, the Bank is required to maintain certain minimum levels of regulatory capital as outlined below.

Restrictions on Dividends, Loans and Advances

The Bank is subject to a regulatory dividend restriction that generally limits the amount of dividends that can be paid by the Bank to the Corporation. Prior regulatory approval is required if the total of all dividends declared in any calendar year exceeds net profits (as defined in the regulations) for the year combined with net retained earnings (as defined) for the two preceding calendar years. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. As of December 31, 2007, $2.1 million of undistributed earnings of the Corporation was available for distribution of dividends without prior regulatory approval.

Loans or advances from the Bank to the Corporation are limited to 10 percent of the Bank's capital stock and surplus on a secured basis. Funds available for loans or advances by the Bank to the Corporation amounted to approximately $1.1 million. The Corporation has a $1.1 million commercial line of credit available at the Bank for the primary purpose of purchasing qualified equity investments. At December 31, 2007, the Corporation had an outstanding balance on this line of $1.1 million.

Minimum Regulatory Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the 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 and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

10. Insurance of Accounts and Regulatory Matters (continued)

As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

The following table sets forth certain information concerning regulatory capital of the consolidated Corporation and the Bank as of the dates presented:

(Dollar amounts in thousands)	December 31, 2007				December 31, 2006			
	Consolidated		Bank		Consolidated		Bank	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets:								
Actual	$ 25,002	10.54%	$ 23,357	9.95%	$ 24,964	11.34%	$ 23,096	10.62%
For capital adequacy purposes	18,974	8.00%	18,771	8.00%	17,617	8.00%	17,401	8.00%
To be well capitalized	N/A	N/A	23,464	10.00%	N/A	N/A	21,752	10.00%
Tier 1 capital to risk-weighted assets:								
Actual	$ 23,075	9.73%	$ 21,260	9.06%	$ 22,910	10.40%	$ 21,060	9.68%
For capital adequacy purposes	9,487	4.00%	9,385	4.00%	8,809	4.00%	8,701	4.00%
To be well capitalized	N/A	N/A	14,078	6.00%	N/A	N/A	13,051	6.00%
Tier 1 capital to average assets:								
Actual	$ 23,075	7.73%	$ 21,260	7.08%	$ 22,910	8.07%	$ 21,060	7.14%
For capital adequacy purposes	11,936	4.00%	12,007	4.00%	11,356	4.00%	11,793	4.00%
To be well capitalized	N/A	N/A	15,008	5.00%	N/A	N/A	14,741	5.00%

At December 31, 2007, the Bank was categorized as adequately capitalized with a total risk-based ratio of 9.95%. The Bank monitors these capital ratios on a monthly basis and based on expected 2008 earnings less dividends, the Bank expects to be categorized as well capitalized by January 31, 2008.

11. Commitments and Legal Contingencies

In the ordinary course of business, the Corporation has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Corporation is involved in certain claims and legal actions arising in the ordinary course of business. The outcome of these claims and actions are not presently determinable; however, in the opinion of the Corporation's management, after consulting legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial statements.

12. Income Taxes

The Corporation and the Bank file a consolidated federal income tax return. The provision for income taxes for the years ended December 31 is comprised of the following:

(Dollar amounts in thousands)	2007	2006	2005
Current	$ 639	$ 445	$ 556
Deferred	156	47	141
	$ 795	$ 492	$ 697

12. Income Taxes (continued)

A reconciliation between the provision for income taxes and the amount computed by multiplying operating results before income taxes by the statutory federal income tax rate of 34% for the years ended December 31 is as follows:

(Dollar amounts in thousands)	2007		2006		2005	
	Amount	% Pre-tax Income	Amount	% Pre-tax Income	Amount	% Pre-tax Income
Provision at statutory tax rate	$ 1,187	34.0%	$ 836	34.0%	$ 1,112	34.0%
Increase (decrease) resulting from:						
Tax free interest, net of disallowance	(288)	(8.2%)	(304)	(12.4%)	(313)	(9.6%)
Earnings on BOLI	(65)	(1.9%)	(58)	(2.4%)	(59)	(1.8%)
Other, net	(39)	(1.1%)	18	0.7%	(43)	(1.3%)
Provision	$ 795	22.8%	$ 492	20.0%	$ 697	21.3%

The tax effects of temporary differences between the financial reporting basis and income tax basis of assets and liabilities that are included in the net deferred tax asset as of December 31 relate to the following:

(Dollar amounts in thousands)	2007	2006
Deferred tax assets:		
Provision for loan losses	$ 680	$ 638
SFAS 158 pension accrual	158	185
Tax credits	-	148
Intangible assets	101	115
Accrued pension cost	73	77
Net unrealized loss on securities	51	28
Other	33	33
Gross deferred tax assets	1,096	1,224
Deferred tax liabilities:		
	-	-
Depreciation	354	360
Stock gain	172	172
Prepaid expenses	72	58
Deferred loan fees	55	26
Loan servicing	21	19
Other	46	53
Gross deferred tax liabilities	720	688
Net deferred tax asset	$ 376	$ 536

The Corporation determined that it was not required to establish a valuation allowance for deferred tax assets in accordance with SFAS No. 109, *Accounting for Income Taxes*, since it is more likely than not that the deferred tax asset will be realized through carry-back to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. The Corporation's net deferred tax asset is recorded in the consolidated financial statements as a component of other assets.

12. Income Taxes (continued)

The adoption of FIN 48 at January 1, 2007 had no impact on the Corporation's financial statements. At January 1, 2007 and December 31, 2007, the Corporation had no FIN 48 unrecognized tax benefits recorded. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. The Corporation recognizes interest and penalties on unrecognized tax benefits in income taxes expense in its Consolidated Statements of Income.

In September 2006, the SEC released SAB 108. The transition provisions of SAB 108 permit the Corporation to adjust for the cumulative effect on retained earnings of immaterial errors relating to prior years. SAB 108 also requires the adjustment of any prior quarterly financial statements within the fiscal year of adoption for the effects of such errors on the quarters when the information is next presented. Such adjustments do not require previously filed reports with the SEC to be amended. In accordance with SAB 108, the Corporation has adjusted beginning retained earnings for fiscal 2006 in the accompanying consolidated balance sheet as described below. The Corporation considers this adjustment to be immaterial to prior periods.

In connection with adopting SAB 108, the Corporation recorded an adjustment to its opening balance sheet for the year ended December 31, 2006. This adjustment, the cumulative effect of which was $120,000, increased retained earnings, reduced accrued income taxes payable and was recorded to properly reflect current taxes payable. During prior year periods, certain tax reserve amounts accumulated in connection with preparing tax provision estimates. These tax reserves were not considered material to prior period consolidated financial statements; however, in evaluating the current tax position of the Corporation, management determined that these reserves were not necessary and, accordingly, made the aforementioned adjustment.

The Corporation and the Bank are subject to U.S. federal income tax as well as a capital-based franchise tax in the Commonwealth of Pennsylvania. The Corporation and the Bank are no longer subject to examination by taxing authorities for years before 2004.

13. Employee Benefit Plans

Defined Benefit Plan

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all employees participate in the retirement plan on a non-contributing basis, and are fully vested after five years of service. The Corporation uses December 31 as the measurement date for its plans. Information pertaining to changes in obligations and funded status of the defined benefit pension plan is as follows:

(Dollar amounts in thousands)	2007	2006	2005
Change in plan assets:			
Fair value of plan assets at beginning of year	$ 3,525	$ 3,037	$ 2,818
Actual return on plan assets	246	296	164
Employer contribution	360	280	135
Benefits paid	(248)	(88)	(80)
Fair value of plan assets at end of year	3,883	3,525	3,037
Change in benefit obligation:			
Benefit obligation at beginning of year	4,392	3,926	3,276
Service cost	238	213	188
Interest cost	262	237	214
Actuarial (gain)/loss	118	(40)	154
Effect of plan amendment	-	144	-
Effect of change in assumptions	(255)	-	174
Benefits paid	(247)	(88)	(80)
Benefit obligation at end of year	4,508	4,392	3,926
Funded status (plan assets less benefit obligation)	(625)	(867)	(889)
Unrecognized prior service cost	(271)	(303)	(486)
Unrecognized net actuarial gain	736	847	1,283
Unrecognized transition asset	-	-	(48)
Accrued pension cost	$ (160)	$ (323)	$ (140)
Amounts recognized in accumulated other comprehensive loss, net of tax, consists of:			
Accumulated net actuarial gain	$ 485	$ 559	$ -
Accumulated prior service benefit	(179)	(199)	-
Amount recognized, end of year	$ 306	$ 360	$ -

13. Employee Benefit Plans (continued)

Amounts recognized in the year end balance sheet consist of:

(Dollar amounts in thousands)	Pension Benefits	
	2007	2006
Prepaid benefit cost	$ -	$ -
Accrued benefit cost	(160)	(323)
Intangible assets	-	-
Accumulated other comprehensive loss	(465)	(544)
Net amount recognized	$ (625)	$ (867)

The accumulated benefit obligation for all defined benefit pension plans was $4.5 million and $3.8 million at year end 2007 and 2006, respectively.

The components of the periodic pension costs are as follows:

(Dollar amounts in thousands)	2007	2006	2005
Service cost	$ 238	$ 213	$ 188
Interest cost	262	237	214
Expected return on plan assets	(303)	(268)	(246)
Transition asset	-	(8)	(8)
Prior service costs	-	32	19
Effect of Special Termination Benefits	-	274	-
Net periodic pension cost	$ 197	$ 480	$ 167

Weighted-average actuarial assumptions include the following:

	2007	2006	2005
Discount rate for benefit obligations and net cost	6.50%	6.00%	6.30%
Rate of increase in future compensation levels	4.50%	4.50%	4.50%
Expected rate of return on plan assets	8.50%	8.50%	8.50%

The Corporation's pension plan asset allocation at year end 2007 and 2006, target allocation for 2008, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2008	Percentage of Plan Assets at Year End 2007	Percentage of Plan Assets at Year End 2006	Weighted-Average Expected Long-Term Rate of Return 2007
Equity Securities	54%	54%	52%	6.0%
Debt Securities	21%	21%	12%	2.0%
Other	30%	25%	36%	0.5%
		100%	100%	8.5%

13. Employee Benefit Plans (continued)

The intent of the Plan is to provide a range of investment options for building a diversified asset allocation strategy that will provide the highest likelihood of meeting the aggregate actuarial projections. In selecting the options and asset allocation strategy, the Corporation has determined that the benefits of reduced portfolio risk are best received through asset style diversification. The following asset classes or investment categories are utilized to meet the Plan's objectives: Small company stock, International stock, Mid-cap stock, Large company stock, Diversified bond, Money Market/Stable Value and Cash.

The Corporation expects to contribute approximately $335,000 to its pension plan in 2008.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

(Dollar amounts in thousands)

For year ended December 31,		Pension Benefits
2008	$	254
2009		247
2010		214
2011		195
2012		227
2013-2017		1,397
Thereafter		1,974
Benefit Obligation	$	4,508

The Corporation adopted SFAS 158 effective December 31, 2006. SFAS 158 requires an employer to recognize the funded status of its defined benefit pension plan as a net asset or liability in its consolidated balance sheet with an offsetting amount in accumulated other comprehensive income, and to recognize changes in that funded status in the year in which changes occur through comprehensive income. The provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented are not restated. The adoption of SFAS 158 resulted in the Corporation recording an additional accrued pension liability of $545,000 and a charge of $360,000, net of taxes, to accumulated other comprehensive income. As of December 31, 2007, the Corporation's liability under SFAS 158 was $465,000 and the charge to accumulated other comprehensive income was $306,000, net of taxes. Additionally, SFAS requires an employer to measure the funded status of its defined benefit pension plan as of the date of its year-end financial statements. The Corporation measures the funded status at December 31.

Defined Contribution Plan

The Corporation maintains a defined contribution 401(k) Plan. Employees are eligible to participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary. Matching contributions for 2007, 2006 and 2005 were $130,000, $76,000 and $75,000, respectively.

13. Employee Benefit Plans (continued)

Supplemental Executive Retirement Plan

During 2003, the Corporation established a Supplemental Executive Retirement Plan (SERP) to provide certain additional retirement benefits to participating executive officers. The SERP was adopted in order to provide benefits to such executives whose benefits are reduced under the Corporation's tax-qualified benefit plans pursuant to limitations under the Internal Revenue Code. The SERP is subject to certain vesting provisions and provides that the executives shall receive a supplemental retirement benefit if the executive's employment is terminated after reaching the normal retirement age of 65. As of December 31, 2007 and 2006, the Corporation's SERP liability was $215,000 and $161,000, respectively. For the years ended December 31, 2007, 2006 and 2005, the Corporation recognized SERP expense of $54,000, $39,000 and $40,000, respectively.

14. Stock Compensation Plans

In May 2007, the Corporation adopted the 2007 Stock Incentive Plan and Trust. Under the Plan, the Corporation may grant options to its directors, officers and employees for up to 177,496 shares of common stock. Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plan. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Effective January 1, 2007, the Corporation adopted SFAS No. 123(R), Share-Based Payment, which requires that compensation cost related to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. During 2007, 84,000 of options were granted which vest over a three year period. For the year ended December 31, 2007, the Corporation recognized $31,000, net of taxes, in compensation expense for stock options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31, 2007
Dividend yield	4.46%
Expected life	10 years
Expected volatility	14.09%
Risk-free interest rate	5.10%

The expected volatility is based on historical stock price fluctuations. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the maximum term of the options. The dividend yield assumption is based on the Corporation's history and expectation of dividend payouts.

14. Stock Compensation Plans (continued)

A summary of option activity under the Plan as of December 31, 2007, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (in years)
Outstanding at the beginning of the year	-	$ -		-
Granted	84,000	26.00		9.5
Exercised	-	-		-
Forfeited	-	-		-
Outstanding as of December 31, 2007	84,000	$ 26.00	$ -	9.5
Exercisable as of December 31, 2007	-	$ -	$ -	-

A summary of the status of the Corporation's nonvested shares as of December 31, 2007, and changes during the period then ended is presented below:

	Options	Weighted-Average Grant-date Fair Value
Nonvested at the beginning of the year	-	$ -
Granted	84,000	3.39
Vested	-	-
Forfeited	-	-
Nonvested as of December 31, 2007	84,000	$ 3.39

As of December 31, 2007, there was $254,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a average period of 2.5 years.

15. Financial Instruments

Fair Value of Financial Instruments

The following table sets forth the carrying amount and fair value of the Corporation's financial instruments included in the consolidated balance sheet as of December 31:

(Dollar amounts in thousands)	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	$ 10,483	$ 10,483	$ 16,717	$ 16,717
Securities	51,919	51,919	51,774	51,774
Loans receivable	229,819	229,262	213,344	210,362
Federal bank stocks	2,662	2,662	2,217	2,217
Accrued interest receivable	1,365	1,365	1,374	1,374
Financial liabilities:				
Deposits	244,262	245,829	244,492	243,328
Borrowed funds	40,400	41,644	30,000	29,668
Accrued interest payable	771	771	825	825

15. Financial Instruments (continued)

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, federal bank stocks, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements and is not material.

Off-Balance Sheet Financial Instruments

The Corporation is party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit involve, to a varying degree, elements of credit and interest rate risk in excess of amounts recognized in the consolidated statement of financial condition. The Corporation's exposure to credit loss in the event of non-performance by the other party for commitments to extend credit is represented by the contractual amount of these commitments, less any collateral value obtained. The Corporation uses the same credit policies in making commitments as for on-balance sheet instruments. The Corporation's distribution of commitments to extend credit approximates the distribution of loans receivable outstanding.

The following table presents the notional amount of the Corporation's off-balance sheet commitment financial instruments as of December 31:

(Dollar amounts in thousands)	2007		2006	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 1,054	$ 3,844	$ 189	$ 3,064
Unused lines of credit	182	25,611	771	18,588
	$ 1,236	$ 29,455	$ 960	$ 21,652

Commitments to make loans are generally made for periods of 30 days or less. The fixed rate loan commitments have interest rates ranging from 4.00% to 11.25% and maturities ranging from 5 to 30 years at both year end dates. Commitments to extend credit include agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments to extend credit also include unfunded commitments under commercial and consumer lines of credit, revolving credit lines and overdraft protection agreements. These lines of credit may be collateralized and usually do not contain a specified maturity date and may be drawn upon to the total extent to which the Corporation is committed.

15. Financial Instruments (continued)

Standby letters of credit are conditional commitments issued by the Corporation usually for commercial customers to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. Standby letters of credit were $869,000 and $463,000 at December 31, 2007 and 2006, respectively. The current amount of the liability as of December 31, 2007 and 2006 for guarantees under standby letters of credit issued is not material.

16. Emclaire Financial Corp. – Condensed Financial Statements, Parent Corporation Only

Following are condensed financial statements for the parent company as of and for the years ended December 31:

Condensed Statements of Financial Condition *(Dollar amounts in thousands)*	December 31, 2007	December 31, 2006
Assets:		
Cash and cash equivalents	$ 83	$ 40
Securities available for sale	3,188	3,235
Equity in net assets of subsidiary bank	22,704	21,828
Other assets	-	-
Total Assets	$ 25,975	$ 25,103
Liabilities and Stockholders' Equity:		
Accrued expenses and other liabilities	$ 1,272	$ 1,186
Stockholders' equity	24,703	23,917
Total Liabilities and Stockholders' Equity	$ 25,975	$ 25,103

Condensed Statements of Operations *(Dollar amounts in thousands)*	Year ended December 31, 2007	2006	2005
Income:			
Dividends from subsidiary	$ 2,159	$ 1,349	$ 721
Investment income	312	488	917
Total income	2,471	1,837	1,638
Expense:			
Interest expense	81	26	-
Noninterest expense	201	100	83
Total expense	282	126	83
Income before income taxes and equity in undistributed operating results of subsidiary	2,189	1,711	1,555
Equity in undistributed net income of subsidiary	501	405	1,241
Income before income taxes	2,690	2,116	2,796
Income tax expense	(7)	150	223
Net income	$ 2,697	$ 1,966	$ 2,573

16. Emclaire Financial Corp. – Condensed Financial Statements, Parent Corporation Only (continued)

Condensed Statements of Cash Flows	Year ended December 31,		
(Dollar amounts in thousands)	2007	2006	2005
Operating activities:			
Net income	$ 2,697	$ 1,966	$ 2,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed operating results of subsidiary	(501)	(405)	(1,241)
Other, net	(109)	(300)	(803)
Net cash provided by operating activities	2,087	1,261	529
Investing activities:			
Purchases of securities	(1,039)	(1,797)	(99)
Proceeds from the sale of available for sale securities	698	814	1,060
Net cash (used in) provided by investing activities	(341)	(983)	961
Financing activities:			
Net change in borrowings	250	850	-
Dividends paid	(1,953)	(1,394)	(1,293)
Net cash used in financing activities	(1,703)	(544)	(1,293)
(Decrease) Increase in cash and cash equivalents	43	(266)	197
Cash and cash equivalents at beginning of period	40	306	109
Cash and cash equivalents at end of period	$ 83	$ 40	$ 306

17. Other Comprehensive Loss

Other comprehensive loss components and related taxes were as follows:

(Dollar amounts in thousands)	**2007**	**2006**	**2005**
Unrealized holding gains (losses) on available for sale securities	$ 142	$ 356	$ (1,084)
Reclassification adjustment for gains later recognized in income	(207)	(400)	(857)
Amortization of pension prior service cost	(31)	-	-
Amortization of pension net actuarial loss	112	-	-
Net unrealized losses	16	(44)	(1,941)
Tax effect	(5)	14	660
Other comprehensive loss	$ 11	$ (30)	$ (1,281)

18. Other Noninterest Income and Expense

Other noninterest income includes customer bank card processing fee income of $267,000, $232,000 and $209,000 for 2007, 2006 and 2005, respectively.

The following summarizes the Corporation's other noninterest expenses for the years ended December 31:

(Dollar amounts in thousands)	2007	2006	2005
Professional fees	$ 497	$ 323	$ 292
Customer bank card processing	263	231	241
Correspondent bank and courier fees	204	214	150
Printing and supplies	178	195	189
Travel, entertainment and conferences	178	162	148
Marketing and advertising	175	154	109
Telephone and data communications	157	148	142
Postage and freight	156	135	140
Pennsylvania shares and use taxes	152	116	272
Other	525	455	714
Total other noninterest expenses	**$ 2,485**	**$ 2,133**	**$ 2,397**

19. Quarterly Financial Data (unaudited)

The following is a summary of selected quarterly data for the years ended December 31:

(Dollar amounts in thousands, except share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007:				
Interest income	$ 4,312	$ 4,416	$ 4,535	$ 4,592
Interest expense	2,003	1,918	1,939	2,026
Net interest income	2,309	2,498	2,596	2,566
Provision for loan losses	45	30	45	136
Net interest income after provision for loan losses	2,264	2,468	2,551	2,430
Noninterest income	730	772	696	745
Noninterest expense	2,310	2,336	2,255	2,263
Income before income taxes	684	904	992	912
Provision for income taxes	133	197	238	227
Net income	$ 551	$ 707	$ 754	$ 685
Basic earnings per share	$ 0.43	$ 0.56	$ 0.59	$ 0.54
2006:				
Interest income	$ 3,744	$ 3,931	$ 4,240	$ 4,344
Interest expense	1,482	1,614	1,855	2,017
Net interest income	2,262	2,317	2,385	2,327
Provision for loan losses	31	47	90	190
Net interest income after provision for loan losses	2,231	2,270	2,295	2,137
Noninterest income	727	769	793	645
Noninterest expense	2,214	2,253	2,264	2,678
Income before income taxes	744	786	824	104
Provision for income taxes	159	184	132	17
Net income	$ 585	$ 602	$ 692	$ 87
Basic earnings per share	$ 0.46	$ 0.47	$ 0.55	$ 0.07

Audit Committee, Board of Directors and Stockholders
Emclaire Financial Corp.
Emlenton, Pennsylvania

We have audited the accompanying consolidated balance sheets of Emclaire Financial Corp. and its subsidiary (the "Corporation") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. The Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Emclaire Financial Corp. and its subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006, the Corporation has given retroactive effect to the change to the dual method of quantifying misstatements of prior year financial statements. The dual method is required by SEC Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." Also, on December 31, 2006, the Corporation changed its method of accounting for defined benefit pension and other postretirement plans by adopting Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

Beard Miller Company LLP

Beard Miller Company LLP
Pittsburgh, Pennsylvania
March 19, 2008

Listings and Markets

Emclaire Financial Corp. common stock is traded on the Over the Counter Bulletin Board (OTCBB) under the symbol "EMCF". The listed market makers for the Corporation's common stock include:

Ferris, Baker Watts, Inc.	**Boenning and Scattergood**	**Parker Hunter, Inc.**
100 Light Street, 8th Floor	4 Tower Bridge, Suite 300	600 Grant Street – Suite 3100
Baltimore, MD 21202	200 Bar Harbor Drive	Pittsburgh, PA 15219
Telephone: (800) 638-7411	West Conshonhocken, PA 19428	Telephone: (412) 562-8000
	Telephone: (610) 862-5360	

Stock Price and Cash Dividend Information

The bid and ask price of the Corporation's common stock were $25.25 and $25.90, respectively, as of February 15, 2008. The Corporation traditionally has paid regular quarterly cash dividends.

The following table sets forth the high and low sale market prices of the Corporation's common stock as well as cash dividends paid for the quarterly periods presented:

	Market Price			Cash
	High	**Low**	**Close**	**Dividend**
2007:				
Fourth quarter	$ 28.25	$ 25.20	$ 25.75	$ 0.67
Third quarter	27.75	25.00	25.60	0.29
Second quarter	27.00	23.50	25.25	0.29
First quarter	31.00	26.75	27.25	0.29
2006:				
Fourth quarter	$ 30.00	$ 25.30	$ 29.25	$ 0.29
Third quarter	29.00	25.00	25.90	0.27
Second quarter	29.00	25.75	27.00	0.27
First quarter	27.25	25.05	26.00	0.27

Number of Stockholders and Shares Outstanding

As of December 31, 2007, there were approximately 679 stockholders of record and 1,267,835 shares of common stock entitled to vote, receive dividends and considered outstanding for financial reporting purposes. The number of stockholders of record does not include the number of persons or entities who hold their stock in nominee or "street" name.

Dividend Reinvestment and Stock Purchase Plan

Common stockholders may have Corporation dividends reinvested to purchase additional shares. Participants may also make optional cash purchases of common stock through this plan and pay no brokerage commissions or fees. To obtain a plan document and authorization card call 800-757-5755.

Corporate Headquarters

Emclaire Financial Corp.
612 Main Street
Emlenton, PA 16373
Phone: 724-867-2311
Website: www. emclairefinancial.com

Subsidiary Bank

The Farmers National Bank of Emlenton
Website: www.farmersnb.com

Annual Meeting

The annual meeting of the Corporation's stockholders will be held at 9:00 a.m., on Wednesday, April 23, 2008, at the main office building in Emlenton, Pennsylvania 16373.

Stockholder and Investor Information

Copies of annual reports, quarterly reports and related stockholder literature are available upon written request without charge to stockholders. Requests should be addressed to William C. Marsh, Chief Financial Officer, Emclaire Financial Corp., 612 Main Street, Emlenton, Pennsylvania 16373.

In addition, other public filings of the Corporation, including the Annual Report on Form 10-K, can be obtained from the Securities and Exchange Commission's web site at http://www.sec.gov.

Independent Registered Public Accounting Firm

Beard Miller Company LLP
P.O. Box 101086
Pittsburgh, PA 15237

Special Counsel

Patton Boggs, L.L.P.
2550 M Street, N.W.
Washington, DC 20037

Registrar and Transfer Agent

Illinois Stock Transfer Company
209 West Jackson Boulevard, Suite 903
Chicago, IL 60606
www.ilstocktransfer.com
800-757-5755

NOTES

Banking Offices

Emlenton
612 Main St.
Emlenton, Pennsylvania 16373
724-867-1001

Bon Aire
1101 N. Main St. • Suite 1
Butler, Pennsylvania 16001
724-283-4666

Brookville
263 Main St.
Brookville, Pennsylvania 15825
814-849-8363

Clarion
6th St. & Wood St.
Clarion, Pennsylvania 16214
814-226-7523

Cranberry
7001 Rt. 322
Cranberry, Pennsylvania 16319
814-676-1970

DuBois
861 Beaver Dr.
DuBois, Pennsylvania 15801
814-371-2166

East Brady
323 Kellys Way
East Brady, Pennsylvania 16028
724-526-5793

Eau Claire
207 S. Washington St.
Eau Claire, Pennsylvania 16030
724-791-2591

Grove City
1319 W. Main St.
Grove City, Pennsylvania 16127
724-264-4260

Knox
8868 Rt. 338 • Suite 1
Knox, Pennsylvania 16232
814-797-2200

Meridian
101 Meridian Rd.
Butler, Pennsylvania 16001
724-482-0133

Ridgway
173 Main St.
Ridgway, Pennsylvania 15853
814-773-3195

Corporate Office

Emclaire Financial Corp.
612 Main St.
Emlenton, Pennsylvania 16373
724-867-2311

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Section 3: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

CERTIFICATIONS
Certification of the Principal Executive Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, David L. Cox, Chief Executive Officer and President, certify that:

1. I have reviewed this annual report on Form 10-K of Emclaire Financial Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal controls over financial reporting or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2008

By: /s/ David L. Cox
David L. Cox
Chairman, Chief Executive Officer and President

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Section 4: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

Certification of the Principal Financial and Accounting Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, William C. Marsh, Chief Financial Officer and Treasurer, certify that:

1. I have reviewed this annual report on Form 10-K of Emclaire Financial Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal controls over financial reporting or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2008

By: /s/ William C. Marsh
William C. Marsh
Chief Financial Officer
Treasurer

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Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CEO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Emclaire Financial Corp. (the "Corporation") on Form 10-K for the year ending December 31, 2007 as filed with the Securities and Exchange Commission on the date here (the "Report"), I, David L. Cox, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

/s/David L. Cox
David L. Cox
Chief Executive Officer
March 24, 2008
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Section 6: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CFO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Emclaire Financial Corp. (the "Corporation") on Form 10-K for the year ending December 31, 2007 as filed with the Securities and Exchange Commission on the date here (the "Report"), I, William C. Marsh, Treasurer and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

/s/William C. Marsh
William C. Marsh
Chief Financial Officer
Treasurer
March 24, 2008
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